UNITED STATES-CANADIAN TRADE POLICIES: IMPACT ON BORDER STATE INDUSTRIES

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

NOVEMBER 17, 1981

Printed for the use of the Committee on Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE
88-180 O WASHINGTON : 1982

S401-10

COMMITTEE ON GOVERNMENTAL AFFAIRS

WILLIAM V. ROTH, Jr., *Chairman*

CHARLES H. PERCY, Illinois
TED STEVENS, Alaska
CHARLES McC. MATHIAS, Jr., Maryland
JOHN C. DANFORTH, Missouri
WILLIAM S. COHEN, Maine
DAVID DURENBERGER, Minnesota
MACK MATTINGLY, Georgia
WARREN B. RUDMAN, New Hampshire

THOMAS F. EAGLETON, Missouri
HENRY M. JACKSON, Washington
LAWTON CHILES, Florida
SAM NUNN, Georgia
JOHN GLENN, Ohio
JIM SASSER, Tennessee
DAVID PRYOR, Arkansas
CARL LEVIN, Michigan

JOAN M. MCENTEE, *Staff Director*
IRA S. SHAPIRO, *Minority Staff Director and Chief Counsel*

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT

WILLIAM S. COHEN, Maine, *Chairman*

TED STEVENS, Alaska
WARREN B. RUDMAN, New Hampshire

CARL LEVIN, Michigan
DAVID PRYOR, Arkansas

SUSAN M. COLLINS, *Staff Director*
PEGGY L. WEEKS, *Professional Staff Member*
FRANCES C. DE VERGIE, *Chief Clerk*
ANNE D. DEMERS, *Assistant Chief Clerk*

CONTENTS

Page
Opening statement of Senator Cohen ---- 1

WITNESSES

Tuesday, November 17, 1981

Dorothy P. Kelley, executive vice president, Maine Potato Council, Presque Isle, Maine; Stanley P. Greaves, executive vice president, Maine Potato Sales Association, Presque Isle, Maine; and George M. Dunsmore, commissioner of agriculture, Vermont Department of Agriculture, Montpelier, Vt ---- 6
Edward F. Bradley, Jr., attorney, counsel to the Maine Fisheries Cooperative Association, Portland, Maine; James Salisbury, fisherman and fish buyer, member, New England Regional Fisheries Management Council, Milbridge, Maine; and M. J. Kuehne, executive vice president, Northwest Independent Forest Manufacturers Association, Tacoma, Wash ---- 27
Lawrence J. Brady, Assistant Secretary for Trade Administration, Department of Commerce; Stephen L. Lande, Assistant U.S. Trade Representative for the Americas, Office of the U.S. Trade Representative, accompanied by Donald deKieffer, General Counsel; Richard A. Smith, Administrator, Foreign Agricultural Service, Department of Agriculture; William E. Fry, Director, Office of Investigations, International Trade Commission; Edward R. Easton, Assistant General Counsel, Office of the General Counsel; and William W. Gearhart, Jr., Assistant General Counsel, Office of the General Counsel, International Trade Commission ---- 72

Alphabtical List of Witnesses

Bradley, Edward F., Jr.:
  Testimony ---- 27
  Prepared statement ---- 43
Brady, Lawrence J.:
  Testimony ---- 72
  Prepared statement ---- 105
deKieffer, Donald: Testimony ---- 72
Dunsmore, George M.: Testimony ---- 6
Easton, Edward R.. Testimony ---- 72
Fry, William E.: Testimony ---- 72
Gearhart, William W., Jr.: Testimony ---- 72
Greaves, Stanley P.: Testimony ---- 6
Kelley, Dorothy P.:
  Testimony ---- 6
  Excerpt of proposal for the Province of New Brunswick Agriculture Subsidiary Agreement ---- 9
Kuehne, M. J.:
  Testimony ---- 27
  Prepared statement with attachments ---- 62
Lande, Stephen L.:
  Testimony ---- 72
  Prepared statement with attachment ---- 112
Salisbury, James:
  Testimony ---- 27
  Prepared statement ---- 55
Smith, Richard A.:
  Testimony ---- 72
  Prepared statement ---- 121

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Statements of:

Page
- Congressman David F. Emery ---- 128
- Congresswoman Olympia J. Snowe ---- 135
- Congressman Denny Smith ---- 131
- Joseph E. Brennan, Governor of the State of Maine, with attachments ---- 138

Summary of Statutory Provisions Related to Import Relief, U.S. International Trade Commission, Washington, D.C., April 1980 ---- 224
Summary from the Effects of the Tokyo Round of Multilateral Trade Negotiations on the U.S. Economy: An Updated View, Congressional Budget Office ---- 244
Excerpts from ABC, Assistance to Business in Canada, Board of Economic Development Ministers, Canada, 1980 ---- 253
Canada/New Brunswick Agricultural Resources Development, Subsidiary Agreement, Regional Economic Expansion, Government of Canada, March 22, 1978 ---- 287
Farm Development Program, Agricultural Resources Development Agreement, Province of New Brunswick, Government of Canada ---- 314

THE POTATO INDUSTRY

Fraser's Potato Newsletter, Prince Edward Island ---- 320
Stabilization Program for 1979 Eastern Canada Potato Crop, News—Agriculture Canada, Ottawa, March 5, 1981 ---- 321

THE FISHING INDUSTRY

Structure, Behaviour and Performance of the Atlantic Groundfish Industry with Special Reference to the Quality Improvement Program, by Marvin Shaffer & Associates, Ltd. (excerpt) ---- 322
Subsidies to Canadian Groundfish Industry, Background Information for Countervailing Duty Assessment, Department of Resource Economics, University of Rhode Island, Kingston, R.I., June 1977 ---- 337
United States-Canadian Trade in Frozen Groundfish Products, 1970–1981, Roger Corey, University of Rhode Island (NOAA/Sea Grant) ---- 360
Financing in the B.C. Fishing Industry. A study for the Marine Resources Branch I.D.S.A., Ministry of Economic Development, Victoria, B.C., by Foodwest Resource Consultants, August 1979 (excerpts) ---- 379
News release communiqué, Department of Fisheries and Oceans, Communications Branch, Ottawa, Ontario, Canada, October 9, 1981 ---- 437
Domestic and International Financial Assistance Programs for the Fishing Industry, by William MacKenzie, Office of Policy and Planning, National Marine Fisheries Service, April 1980 ---- 440
Re-Examination of Financial Support to the Fishing Industry, Canada, Organization for Economic Cooperation and Development, Committee for Fisheries ---- 453
Department of State telegram from the American Consulate, Quebec, to the Secretary of State ---- 458
Canadian Subsidies to the Fishing Industry, U.S. Department of Commerce, National Oceanic and Atmospheric Administration, National Marine Fisheries Service, Washington, D.C. ---- 460
Financial Support to the Fishing Industry of OECD Member Countries, Organization for Economic Cooperation and Development, Paris, 1980 ---- 469
Summary of Results of Inquiry Into Impact of Imported Canadian Groundfish on New England Markets ---- 476
Airgram to Department of State, Washington, D.C., and unclassified materials relating to Canadian fishing industry, with cover letter dated November 9, 1981, to the Subcommittee on Oversight of Government Management from William Newlin, Office of Canadian Affairs, Department of State ---- 493
Canadian Fisheries Policy—Canadian Lobster Imports and the New England Lobster Industry, by Nancy L. Hasselback, Joel B. Dirlam, and John M. Gates, Economics Resource Economics, NOAA/Sea Grant, University of Rhode Island, January 1981 ---- 501
Government Assistance to the Commercial Fishing Industry of Canada, by Eugene H. Buck, Lawrence C. Kumins, Larry B. Parker, Environment and Natural Resources Policy Division, Congressional Research Service, August 15, 1980 ---- 515

Additional Material Submitted for the Record—Continued

THE FISHING INDUSTRY—Continued

Page
Letter from Robert R. Young, Young's Lobster Pound, Belfast, Maine, to Senator Cohen, November 30, 1981 546
Letter from Henry Haugen, Haugen & Thoreen, attorneys at law, Seattle, Wash., to Subcommittee on Oversight of Government Management, October 29, 1981 547
Statement of the New Bedford Seafood Council, New Bedford, Mass 549

THE WOOD PRODUCTS INDUSTRY

A Regional Comparison of Stumpage Values in British Columbia and the United States Pacific Northwest, by David Haley, associate professor, faculty of forestry, University of British Columbia, Vancouver, B.C 556
Canadian Softwood Lumber Imports, by M. J. Kuehne, executive vice president, Northwest Independent Forest Manufacturers, October 1981 574
Article entitled "Wood Industry is in Midst of Depression," Foster's Daily Democrat, Dover, N.H., October 21, 1981 579
Letter from Gene Peterson, Peterson Bros. Manufacturing Co., Carney, Mich., to the Subcommittee on Oversight of Government Management, November 3, 1981, with attachments 582
Letter from Henry Haugen, Haugen & Thoreen, attorneys at law, Seattle, Wash., October 15, 1981, with Background Paper on Import Relief for Domestic Red Cedar Shingle & Shake Industry (excerpts), May 16, 1981 585

OTHER INDUSTRIES ADVERSELY AFFECTED BY CANADIAN SUBSIDIES

Letter from Roger L. Roberts, Department of Agriculture, State of Washington, Olympia, Wash., to Subcommittee on Oversight of Government Management, December 1, 1981, with attachments 594
Letter from Dorothy J. Anderson, secretary-treasurer, Washington Blueberry Commission, Bow, Wash., to Subcommittee on Oversight of Government Management, December 2, 1981, with attachment: Public Consultation Desirability of North American Trade Agreements, by Richard H. Drew, December 18, 1980 613
Letter from Dwight V. Chilton, chairman, Washington Red Raspberry Commission, Everson, Wash., to Subcommittee on Oversight of Government Management, November 28, 1981, with attachments: market study by Shirley Zoro, Department of Agriculture for the Raspberry Commission, State of Washington, and Proposed Narrative, Washington State Department of Agriculture, Red Raspberry Marketing Project 618
Letter to Senator William S. Cohen from John H. Steeves, M.D., Steeves & Steinhacker Associates, Skowhegan, Maine, November 19, 1981 628
Fruits and Vegetables in the MTN—U.S. Benefits, Executive Office of the President, Office of the Special Trade Representative, Washington, D.C. 630
Letter to Senator William S. Cohen from Beniah C. Harding, Thomaston, Maine, October 14, 1981 633
Letter from Dean K. Webster, president, H. K. Webster Co., Inc., Lawrence, Mass., to the Subcommittee on Oversight of Government Management, October 23, 1981 634
Letter to Senator William S. Cohen from John J. Pineau, president, WVII Television, Bangor, Maine, December 7, 1981 636

UNITED STATES-CANADIAN TRADE POLICIES: IMPACT ON BORDER STATE INDUSTRIES

TUESDAY, NOVEMBER 17, 1981

U.S. Senate,
Subcommittee on Oversight of
Government Management,
Committee on Governmental Affairs,
Washington, D.C.

The subcommittee met at 9:10 a.m., in room 6226, Dirksen Senate Office Building, Hon. William S. Cohen (chairman of the subcommittee) presiding.

Present: Senator Cohen.

Staff present: Susan M. Collins, staff director; William W. Stelle, counsel; Peggy L. Weeks, professional staff member; Robert Umphrey, professional staff member; Carla Kish, professional staff member; Frances de Vergie, chief clerk; and Anne D. Demers, assistant chief clerk.

OPENING STATEMENT OF SENATOR COHEN

Senator Cohen. The subcommittee will come to order. The Subcommittee on Oversight of Government Management has convened this hearing on United States-Canadian trade relations to ask how we are to preserve the health and vitality of our domestic industries while promoting the regional cooperation which is the historical keynote of the United States-Canadian relationship. Our focus in particular is on those smaller enterprises located in our border States, for whom the issue of trade is of special importance, and, indeed, at times a matter of survival.

At the outset, it must be recognized that of fundamental importance to both Canada and the United States is the maintenance of the cooperative and constructive relationship that has for so long characterized our history. For two nations which are cultural cousins sharing the longest undefended border, the greatest volume of bilateral trade, and a close community of economic, social, and strategic interests, such a relationship is altogether fitting.

Within this context, though, it is inevitable that the economic interrelationships that exist at all levels occasionally generate disagreements which require resolution.

Our central task, as I see it, is to insure that we have the mechanisms necessary to smooth over such frictions before they become political fissures which mar the fundamental harmony between us.

These frictions stem from the legitimate interests of each government to expand commerce and preserve economic well-being. In times of economic downturns, these pursuits rightly become of highest priority. But while we share these objectives, our methods of achieving them are quite different. In the United States, we usually rely upon private initiative and shun governmental intrusion. In Canada, on the other hand, increasing Government participation in regional development characterizes her long-term strategies. Targeted grants, loans, financial guarantees, tax breaks, and other assistance have fueled industrial expansion programs—many with admirable success.

I wish to emphasize two points. First, I have no quarrel with my Canadian neighbors, nor do I question the wisdom of their policies. In fact, I share many similar concerns for our own regional industries. Second, I do not believe that the United States should require its industries to compete with the treasuries in Ottawa and the Provinces. Rather, I believe that our industries must compete on their own, but compete on an equal basis.

And I am not alone in this belief. The international community has affirmed its faith in the expanded free trade in the Tokyo Round negotiations which endorsed the principles of nondiscrimination and fair competition. Our vast and expanding trade with Canada makes it important that we minimize market distortions. Furthermore, the maintenance of harmonious relations so essential to our well-being requires that we do so with a minimum of conflict and political fallout.

The continued flow of Canadian public assistance to key regional industries is a matter of public record. Federal funds alone totaling $8 billion a year fuel their expansion and their exports, with serious consequences on our border State industries. For example, imports of subsidized fresh fish have increased over 40 percent since 1978. The market share of Canadian forest products have doubled, while potato imports from the Maritime Provinces have tripled since 1975.

My objection is not with the exports per se. In many areas, Canadian exports play an important role in supplementing domestic supply. Nor is public assistance the sole factor causing increased exports. The exchange rate now at 18 percent, high interest rates, and other factors exacerbate the problem. But where continued Canadian public assistance has expanded production, reduced costs, and encouraged exports, our industries deserve relief.

There are those who contend that these concerns are nothing more than parochial New England bellyaching which interfere with the serious affairs of trade. Just more mindless rocking of the boat. My response to this is quite simple: I do not contest that such issues as energy, pollution, and investment policy deserve the attention of Washington and Ottawa. But neither do I accept that in the face of these macro issues the problems of small industries should be brushed aside. To ask the fishermen of New England or the shake mills of the Northwest to muffle their voices of dissent and to forego their rights is to ask them to subsidize these giants with their own economic futures.

Nor should it be regarded as rocking the boat for small producers to request redress of competitive imbalances caused by Canadian assistance. The Governments of the United States, Canada, and the other trading nations have agreed that they may legitimately counterbalance foreign assistance when it results in injury to their domestic industries. To regard the exercise of these recognized rights as "rocking the boat" is to cast them in a politically inflammatory, retaliatory setting which misconstrues them and taints the cooperative bilateral relations that we seek.

Rather, we should administer our laws implementing these rights so as to correct imbalances and provide redress where and when deserved. We should insure that access to them is open to all, that they are administered in a comprehensible and evenhanded fashion, and that they're viewed as vehicles to reduce frictions and not the other way around.

We have here today, to assist us, witnesses representing a number of smaller industries located in border States who will testify about their problems with Canadian imports and their experiences with the remedies currently available to them. The represented industries include the fishing industries, wood product industries, potato growers, and producers of maple syrup. And as well, we have with us representatives from the various Federal agencies which administer these remedies, who will testify about their administration, their ability to redress the problems of small businesses, and, finally, the overall management of trade policy.

[The prepared statement of Senator Cohen follows:]

PREPARED STATEMENT OF SENATOR WILLIAM S. COHEN

The Subcommittee on Oversight of Government Management has convened this hearing this morning to inquire into the subject of U.S.-Canadian trade relations—and to ask how we are to preserve the health and vitality of our domestic industries while promoting the regional cooperation and respect which is the historical keystone of the U.S.-Canadian relationship. Our focus, in particular, is on those smaller enterprises located in our border states for whom the issue of trade is of special importance, and, at times, a matter of survival.

At the outset, it must be recognized that of fundamental importance to both Canada and the United States is the maintenance of the cooperative, friendly, and constructive relationship that has for so long characterized our history. For two nations which are cultural cousins sharing the longest undefended border, the greatest volume of bilateral trade, and the close community of economic, social, and strategic interests, such a relationship is necessary and altogether fitting. I, for one, unequivocally support it.

Within this context, though, it is inevitable that the social and economic interrelationships that exist at all levels generate occasional disagreements which require resolution, particularly as each nation pursues its own economic self interests, which may from time to time diverge from those of the other. Our central task, as I see it, is therefore to ensure that we have available to us the institutional mechanisms to smooth over such frictions and disagreements before they become political fissures which mar the fundamental harmony between our two nations.

These frictions stem in part from the legitimate interests of each government to expand domestic commerce, increase employment, and preserve the economic well-being of its industry. Especially in times of economic downturns, these pursuits become of highest priority, as well they should. But while we share these domestic objectives, our methods of achieving them differ. Here in the United States, we rely to the extent possible on private initiative and private decision-making to orient growth and development. For Canada, on the other hand, increasingly active government participation in industrial expansion and regional development at both the federal and provincial levels characterizes her long-term strategies.

In industry sector after industry sector, targeted grants, loans, financial guarantees, tax breaks, and other assistance have fueled industrial expansion programs in province after province, many with admirable success.

I wish to make two points entirely clear. First, I have no quarrel with my Canadian neighbors, nor do I question the wisdom or propriety of their development policies. In fact, I share many similar concerns for the economic well-being of our own regional industries. It is precisely these concerns which bring me here today.

Second, I do not believe that the United States Government should require its regional industries to compete with the treasuries in Ottawa and the provincial capitals. I am dedicated to the idea of free enterprise, and believe that our industries must compete on their own, and survive on their own in that competition, both here and abroad. But I believe as well that they deserve the chance to compete on an equal basis.

And I am not alone in this belief. The international community has affirmed its faith in the expanded free flow of goods in the Tokyo Round negotiations, the successful conclusion of which well deserves the praise accorded it. And further still, its agreement on the non-tariff codes endorsed the very principles of nondiscrimination, fair competition, and the right of governments to minimize market distortions and maintain conditions of fair trade.

Our vast and expanding trade with Canada makes it ever more important that we minimize these artificial distortions in the postures of our competing industries. Furthermore, the fundamental importance of maintaining harmonious and cooperative relations, so essential to the well-being of both countries, requires that we do so with a minimum of fuss and political fallout.

The continued flow of Canadian public assistance to key regional industries is no secret. It is a matter of public record, open to all who care to look. Funds to the agricultural, fishing, forestry, and mining sectors, totaling over $8 billion each year from the federal sector alone, fuel their expansion. And as they expand, so do their exports in our domestic markets, with serious consequences in particular for those border state industries whose markets are most vulnerable.

For example, imports of subsidized frozen fish have all but eliminated the domestic frozen fish industry in New England, while imports of fresh fish have increased over 40 percent since 1978 alone. In forest products, the market share of Canadian imports have jumped from 18 percent in 1975 to a record 32 percent for the first six months of 1981. Similarly, in the agricultural sector, imports of potatoes from the maritime provinces have tripled since 1975. The list continues.

My objection is not with exports per se. In fact, it should be noted that in many areas the Canadian exports play an important role in supplementing supply and meeting domestic demand. But where contiuned Canadian public assistance has expanded production capacities, reduced production costs, and facilitated exports, our industries deserve appropriate relief.

There are those who will claim that our problems stem not from Canadian public assistance, but from the exchange rate, now approaching an all-time high of 20 percent. The exchange rate does afford a serious advantage to Canadian importers by providing them with essentially a 20 percent discount on the price of their goods. In effect, it exacerbates the impact of these assistance programs and simply compounds their advantage and our injury. No one claims that Canadian public assistance is the sole source of the competitive advantages enjoyed by many Canadian products in U.S. markets. Interest rates, exchange rates, and other industry-specific problems are also factors which play important roles.

But where such assistance contributes to that advantage, those contributions require offset.

There are also those who contend that these concerns are nothing but more parochial New England bellyaching about a few quaint industries which interfere with the serious affairs of international trade. Just more mindless rocking of the boat. My response to this is simple. I do not contest that such issues as energy, transboundary pollution, and investment policies deserve the high-level attention of Washington and Ottawa, but neither do I accept the contention that in the face of these macro issues, the problems of small industries and small businessmen and women should be brushed aside. Linkage is unwise, unnecessary, and unfair: to ask the fisherman of New England or the shake mills of the Northwest to muffle their voices and forego their rights is to ask them in fact to subsidize these giants with their own economic futures.

Nor should it be regarded as "rocking the boat" for these small producers to request redress of competitive imbalances caused by Canadian assistance. The governments of the United States, Canada, and the other major trading nations have agreed that, just as they may legitimately pursue domestic economic development programs through domestic subsidies and assistance, so too may other governments counterbalance such assistance when it results in injury to their own domestic industries. To regard the exercise of these internationally recognized rights as "rocking the boat" is to cast them in a politically inflammatory retaliatory setting which misconstrues them and taints unnecessarily the cooperative bilateral relations we seek to enhance.

Rather, we should seek to administer the domestic laws implementing these rights so as to correct competitive imbalances where they result in injury and to provide redress where and when deserved. We should ensure that access to these remedies is open to all, rich and poor; that they are administered in straightforward, comprehensible, and evenhanded fashion, and that they are viewed as vehicles to sooth irritants and reduce frictions, and not the other way around.

In order to examine the administration of these laws, we have here today, to assist us, witnesses representing a number of smaller industries located in border states who will testify about their problems with Canadian imports, and their experiences with the remedies available to redress them. The represented industries include the fishing industries, the wood products industries, the potato growers, and producers of maple syrup. And, as well, we have with us representatives from the different federal agencies which administer these remedies, who will testify about their administration, their ability to redress the problems of small businesses, and the overall management of trade policy among the many participants.

Senator COHEN. Before the issue of United States-Canadian trade as it affects small firms in virtually every State is presented, I want to say that many other Congressmen and Senators expressed interest in this hearing. In particular, Congressman David Emery and Congresswoman Olympia Snowe from Maine, as well as Congressman Denny Smith from Oregon, have voiced their concerns and will be submitting written statements for inclusion in the subcommittee record.[1]

I certainly welcome their contribution and interest to increasing the subcommittee's awareness of the competition caused by growing Canadian imports in a wide variety of industries.

I would also request that a statement from the Governor of Maine should be entered into the record.[2] I would point out that I believe hearings will be held before the Senate Finance Committee by Senator Mitchell, who will be participating actively in those hearings to complement those that are proceeding here today.

I am pleased to introduce our first panel of witnesses this morning. I would like to extend a warm welcome to Mrs. Dorothy P. Kelley, the executive vice president of the Maine Potato Council, and to Mr. Stanley P. Greaves, executive vice president of the Maine Potato Sales Association.

It is a pleasure to have these distinguished representatives of the Maine potato industry here. I look forward to your remarks. Joining these witnesses is Mr. George M. Dunsmore, who is the commissioner of agriculture from the State of Vermont, representing the Vermont maple syrup industry.

These witnesses have been asked to describe the difficulties they have had with Canadian competition as well as any frustrations they have experienced in getting assistance from our own Government. In the interest of time, Mr. Greaves, Mrs. Kelley, Mr. Dunsmore, would you please come forward now. I hope you will be able to summarize your statements. They will appear in full in the record.

---

[1] See p. 128.

[2] See p. 138.

TESTIMONY OF DOROTHY P. KELLEY, EXECUTIVE VICE PRESIDENT, MAINE POTATO COUNCIL, PRESQUE ISLE, MAINE; STANLEY P. GREAVES, EXECUTIVE VICE PRESIDENT, MAINE POTATO SALES ASSOCIATION, PRESQUE ISLE, MAINE; AND GEORGE M. DUNSMORE, COMMISSIONER OF AGRICULTURE, VERMONT DEPARTMENT OF AGRICULTURE, MONTPELIER, VT.

Mrs. KELLEY. Thank you, Mr. Chairman. My name is Dorothy Kelley. I am the executive vice president of the Maine Potato Council, which is an organization that represents all potato producers of 5 acres or more within the State of Maine. In 1975, the Maine Potato Council was concerned about the Geneva agreement on tariffs and trade. We wrote several letters to negotiator Robert Strauss, due to known subsidies that the Canadian producers enjoy at that time.

Also in 1975, Canadian studies were being done to form a plan to increase potato production for possible export. An excerpt of the proposal for the Province of New Brunswick is hereto attached as an exhibit.[1] The attachment shows the development strategy in New Brunswick which would increase potato production from 10.8 million hundredweight in 1975 to 14 million hundredweight in 1983. The purpose of this strategy, so stated, is to increase the exports by 40 percent—not only offshore, but also to the United States.

In past years, the United States has exported more potatoes into Canada; however, since 1979, Canadians have exported more product to the United States then we exported to them. It's interesting to note, and worthy of investigation, since import and export statistics of the United States and Canada do not coincide whatsoever. Because Maine has a close proximity to Canada and is completely surrounded by eight border crossings, the Maine potato industry was the first area to feel the effects of increased imports.

Imports of eastern Canadian potatoes, where 70 percent of the Canadian production is imported to the United States through Maine ports, over the last number of years have increased in volume and now stand at more than 6,000 loads for this past marketing season. The important fact to note is this was 25 percent of the total volume of Maine fresh tablestock.

This past season, other potato producing areas have experienced losses of eastern markets. These States are Idaho and New York. In 1978, the directors of the Main Potato Council asked me to file a petition in regard to Canadian imports.

A draft of a countervailing petition was presented to officials of the International Trade Commission and the Department of Commerce, and I personally made a trip to Washington for the officials to study my draft proposal and to give my assistance and advice. At this time the officials urged Maine to file an antidumping petition, and I returned to Maine and spent 4 months gathering statistics and documentation. The documentation of injury is nearly impossible for someone in my position, as buyers who purchased Canadian potatoes instead of Maine's are very reluctant to provide you the information that you need. Since prices available to me are wholesale prices, and it even behooves the USDA statistical reporting service to determine a method of reporting farm gate prices—it is impossible for me. The USDA informed me that buyers imported Canadian potatoes since they are premium potatoes, and I maintained that the premium is in the price, due to the difference in the exchange.

---

[1] See p. 9. See additional material for the complete study, p. 287.

Maine Governor Brennan, at the request of Mr. Greaves and myself, did last year inspect trucks for 7 days and the inspectors found 15 loads of tablestock potatoes. They were inspected as Canadian No. 1 grade, and 5 of those 15 loads failed to make the inspection grade of Canadian No. 1. Had the 15 loads been graded to U.S. No. 1's, there would have been 10 loads out of the 15 that failed to meet U.S. No. 1.

The antidumping petition which I filed and mailed to Washington happened to be at the same time that a group of Maine growers blocked the border between Maine and Canada. The administration at that time immediately sent a task force to northern Maine for a private meeting with a select group of growers. At this meeting, which I was not privileged to attend, it was decided that I should file a countervailing duty petition.

A telephone call was received from the administration upon return of the task force, and I was informed of the decision for Maine to file a countervailing duty. The calling party suggested that the antidumping petition which I had filed would be denied before it was published in the Federal Register, and they requested that I start again with a countervailing duty petition. It seems the petition and I became a political football. I tried the countervailing duty petition, which was actually much easier to write and to document because of the various subsidies; however, I still could not document the injury. At this time, I turned the petition over to some economic professors at the University of Maine, and they, too, found documentation impossible.

The process for filing a petition is cumbersome, statutory, and perplexing for an individual who has no legal background and represents a small agricultural industry—so involved that the Maine Potato Council's legal counsel refused to take the case, as well as a legal aide of the attorney general's office.

Countervailing duties are designed to eliminate the advantages that exporters to this country may have when they ship goods that benefit from Government subsidies. Although I could document grants, interest-free loans, freight subsidies, to a total of 30 "assistance programs," which is what Canadians like to call them. It seems that some of these were not considered subsidies, and it's difficult for me to understand what is considered a subsidy.

Last year, United States Steel withdrew an antidumping petition they filed, and I am sure they retain a large legal staff. The 1st of November this year, the Government announced that they would start a countervailing duty action on behalf of United Steel against five foreign countries, and it seems that if you are a large enough industry the Government can help you.

At the present time, Maine and New York State have retained a Washington legal firm who are presently investigating the amount of inquiry. This action will be very costly and should the International Trade Commission and Commerce decide positive, the increase in tariff will only be allowed to a percentage of the documented injury, and this may not reduce any imports.

While attempting to file the petition, I discovered many shipments of seed were destined for repackers in Massachusetts and Hunts Point terminal market in the Bronx, New York, where they plant no potatoes. Customs have determined that the U.S. Government has no control over the potatoes once they cross the border. Since seed potatoes come in at a reduced tariff, after the tablestock quota is filled, the U.S. Government is losing duty on many Canadian shipments. Officials of PACA had agreed to investigate the Hunts Point market if I could provide a truck number and a destination when the shipment crossed into the United States; however, the customs officers at the border were denied the right to provide me this information.

For this reason, Maine Senators Cohen and Mitchell introduced legislation calling for Treasury to provide a method to determine the end use of imported seed potatoes. Last February, I had the opportunity to personally request Secretary Block to investigate the Canadian potato import situation. He then formed an agency task force to investigate the problem. We are still awaiting finalization of this report, and to my knowledge, no pertinent questions regarding the problem have been asked of the Maine potato industry.

We are constantly told by the USDA that the Canadians are our friends. This is true, and in many instances the potato producers on each side of the border are related. We all have friendly disagreements with our relatives once in a while, and particularly when it comes to dividing up the estate, and Maine has been trying for several years to say that Canada is getting too much of our wealth.

Maine's commissioner of agriculture invited the ministers of agriculture in the Provinces of Prince Edward Island and New Brunswick to meet with Maine officials, in an attempt to solve the problem. We have had six congenial meetings during 1980 and 1981. They honestly detail their programs, but no solutions have been reached. They intend to increase exports offshore and to the United States. The National Potato Council has met with the Canadian Horticultural Society since 1978, just to discuss mutual topics, but no solutions have been reached. Maine cannot compete in the export market due to the difference in the exchange.

Maine dealers have had foreign buyers agree to purchase Maine potatoes if the dealers will accept payment in Canadian funds. An amendment to the farm bill presently in conference will allow the Secretary of Agriculture to implement a special standby export subsidy program for the purpose of neutralizing the effects of foreign subsidies. If the amendment passes, it could equalize the competition in the export market.

We feel that all agencies have cooperated to the best of their ability; however, it is difficult to know where to go to get the answer to your problem, from which agency. The Customs and International Trade Commission were very helpful at the time of my filing the petitions, but they could only go just so far. It has been 6 years since I started working on this problem, and to date I am no further along than I was when I started. Since tablestock imports from Canada doubled in 1979 and 1980 from a figure of 1.1 million hundredweight to 2.3

million hundredweight, and in 1980 and 1981 the seed imports from Canada hit a new all-time high of 1.3 million hundredweight compared to 5,028 hundredweight in 1979 and 1980.

This makes the Maine potato producers wonder why our Government does not take some action on behalf of its citizens. In allowing this hearing today, I feel that the administration is looking at the problems of small industry and I urge this subcommittee to consider restricting imports which are damaging the small U.S. agricultural producers as well as some of our small domestic businesses.

Thank you.

[The attachment referred to follows:]

EXCERPT OF PROPOSAL FOR THE PROVINCE OF NEW BRUNSWICK AGRICULTURE SUBSIDIARY AGREEMENT

C. THE DEVELOPMENT STRATEGY

The general objective is stated in the first Agricultural Development Sub-Agreement: "to enable Canada and the Province to jointly participate in initiatives directed towards the attainment of maximum economic and socio-economic benefits from the agricultural resources of the Province of New Brunswick, and particularly to reinforce federal and provincial government policies and programs relating to the development or support of all aspects of the agricultural sector."

More specifically, the development strategy is aimed at increasing the agriculture and related sectors' contribution to provincial output, earned income and employment by concentrating efforts on increasing the volume and efficiency of production, expanding the range of processing activities and improving the marketing of commodities for which New Brunswick can develop a competitive advantage in the domestic and export markets.

The potential of the agriculture and related sectors to contribute additionally to provincial outputs has been identified and is based on the attainment, by 1983, of the following commodity targets:

Commodity [1]	Production, 1975	Production targets, 1983
Potatoes	10,820,000 cwt	14,000,000 cwt.
Hogs	12,176,000 lb	20,600,000 lb.
Dairy fluid	140,133,000 lb	175,000,000 lb.
Manufacturing	80,500,000 lb	114,000.000 lb.
Beef	14,070,000 lb	18,200,000 lb.
Sheep	630,000 lb	963,000 lb.
Fruits:		
Apples	310,000 bu	700,000 bu (1988).
Strawberries	1,110,000 qt	8,500,000 qt.
Blueberries	3,835,000 lb	7,800,000 lb.

[1] Selected vegetables increase of 11,000,000 lb valued at $1,500,000.

These production targets, at which the development effort is aimed, will, in all probability, not completely materialize in every case. However, the targets are regarded as realistic goals given existing production capabilities and current estimates on available markets. Given the attainment of the above targets, the physical volume of agricultural production can be expected to increase by 35 percent over the 1975 level. As a result of both increased output and gains in the efficiency of production, the annual gain in gross provincial product in primary agriculture is estimated at $18.8 million by 1983, in 1975 dollars. The annual gain in earned income in the primary sector is estimated at $14.1 million. It is further estimated that the production of this increased output will require an additional 900 man-years of labour given the attainment of productivity objectives. Earned income in gross domestic product per employee should increase by twenty-five percent.

Because of the essential linkage which exists between primary agriculture and other associated industries, the strategy is intended as an integrated, comprehensive package for economic development purposes, touching all levels of the industry. In addition to these potential gains in the primary sector, additional benefits will be realized in the related processing and supply industries. It is estimated that as many as four man-years of employment in the off-farm activities are created for every additional man-year in the primary sector.

This development strategy will apply province-wide, but will remain flexible enough to be consistent with, and appropriate to, New Brunswick's geographic diversity, resources endowment and cultural differences. Development opportunities will therefore be undertaken and constraints to such development removed wherever they exist in the Province.

Through the development strategy, assistance will be directed to those persons or enterprises which show potential to contribute to the objectives of the Agreement and demonstrate the need for such assistance.

The development strategy is designed to essentially implement the major thrusts outlined in the Commodity Sub-Strategies. However, because development circumstances can change rapidly, the strategy must retain sufficient flexibility to respond to presently unforeseen development opportunities which may occur over the life of the agreement. Development circumstances in the sector and program measures will be monitored and evaluated on a continuous basis throughout the life of the Subsidiary Agreement and program and commodity priorities changed accordingly.

In recognition of the desirability to meet specific commodity goals in the agricultant sector through the mechanism of this Agreement and, in recognition of the existence of possible supplemental funding in certain economically depressed regions with significant agricultural potential, every effort will be made to have proposed agricultural projects under regional sub-agreements reviewed by the appropriate working committees of this Agreement, to ensure their compatibility with the overall agricultural objectives.

The constraints, impeding the attainment of the potentials in the agricultural sector are presented in the Commodity Sub-Strategies. While each commodity group has its own unique problems, most significant constraints to increased agricultural production are categorized in the following general groupings: Human Resources; Commodity Marketing, Land, Agricultural Facilities both on and off-farm and, Availability of Capital.

The 1983-production targets by commodity are based on presently estimated market opportunities. These estimates will be reviewed annually by the Management Committee and revisions may be made in light of changing economic and supply-demand outlooks.

D. COMMODITY SUBSTRATEGIES

1. Potatoes

New Brunswick potatoes account for slightly over 20 percent of Canada's total potato production and can be found on national and international markets in three major product forms: tablestock, seed and processed potato products. This commodity is of primary importance in New Brunswick agriculture, accounting for 34 percent of total farm cash income during the period 1971–75.

Opportunities.—There is an opportunity to significantly increase seed potato exports, not only offshore, but also to the United States, Ontario and Quebec. This would be facilitated by improving the quality of seed produced and ensuring efficient marketing. In order to increase the volume of the New Brunswick crop that is processed, sizeable acreages will have to be developed on the east coast of the Province. There is also an opportunity to increase the value to the producer of the raw product delivered to the processor. No significant growth opportunities appear in the tablestock sector, although steps should be taken to stop the erosion of Quebec and Ontario markets and to regain the New Brunswick market.

Constraints.—The quality of seed, tablestock and processing potatoes is low; Aggressive market promotion and after-sales services in seed and tablestock markets are lacking; The industry lacks an effective organizational structure; There are major deficiencies in transport and handling systems; The land area available for potato production is limited and there is a general lack of application of crop rotation technology; Land drainage is inadequate and soil erosion problems are common; Bacterial and viral diseases are major problems; There is insufficient product diversity . . . yellow-flesh as well as white-flesh tuber type; There are delays in implementing known technology, particularly with regard to storage.

Objectives, 1983.—1. Establish an effective industry organizational structure; 2. Increase the land base to 125,000 "best suited" productive acres in Carleton, Victoria and Madawaska Counties to ensure adequate rotation and obtain annual production of potatoes from 62,000 acres; 3. Increase the share of local tablestock on the New Brunswick retail market from 125,000 to 400,000 CWT; 4. Increase seed exports by 40 percent to a total of 1.7 million CWT; 5. Evaluate the feasibility of producing and marketing yellow-flesh varieties and establish commercial production of 3,000 acres; 6. Establish the base of a potato industry centered on the east coast of the Province; 7. Increase unit output by 10 percent to an average of 225 CWT/acre; 8. Achieve a total industry production target of 14 million CWT of marketable potatoes.

Initiatives: Seed.—A designation system will be established to identify seed areas; Aggressive and systematic measures to eradicate ring-rot from New Brunswick potato fields; The promotion of seed quality improvements; The evaluation of the potential of yellow flesh varieties; The establishment of a containerized handling system for seed potatoes; The provision of technical and after-sales services; The demonstration of seed production potentials on the east coast; The delivery of specialist advisory services.

Processing.—The promotion of quality improvement techniques to producers; The provision of on farm demonstrations to upgrade production technology; The demonstration of processed crop potentials on the east coast; The effective integration of the entire industry to ensure the supply of quality tablestock.[1]

Tablestock.—The institution of an intraprovincial inspector service; [2] Programs to improve the quality of tablestock: The promotion of New Brunswick tablestock and improved merchandizing methods; The establishment of an efficient market information system; The introduction of palletized handling systems.

General.—The promotion of an effective industry-wide organizational structure; The improvement of storage technology on farms; The development of livestock feed potentials: The provision of assistance for land developments.

2. *Fruits and vegetables*

The fruit and vegetable industry is a modest sector of the Province's agricultural economy, representing 4% of the total farm cash income in 1976. In general, the industry is considerably underdeveloped and does not supply a significant portion of the domestic demand. Even the tourist trade, which could be accommodated due to the seasonal character of fresh fruit and vegetables production, is quite unexploited. The ready access to major urban markets in the noneastern U.S. seaboard further supports the attractiveness of horticultural development prospects in New Brunswick.

Senator COHEN. Thank you very much, Mrs. Kelley, for a very dramatic statement about the dimensions of the problem that the potato producers in Maine are facing. I would add only one correction to your statement. This administration has to date not yet evidence the kind of concern that we're talking about for the small industries in the border States. This Congress, I hope, is going to show the kind of interest that is necessary. The purpose of this hearing is to dramatize and to elucidate exactly the dimensions of the problem, and to inform members of the administration of it. The hearing will also point out that when people's livelihoods are faced with being extinguished, then they tend to get desperate, as they have in the past, and even occasionally resort to violence.

That is what must be avoided at all costs. The purpose of these hearings is to provide a forum and framework where we can discuss these various frictions before they are magnified into the fissures that I mentioned in my opening statement.

What you have given us today is a 6-year tale of being bounced from a petition for countervailing duties back to an antidumping petition, back to countervailing duties, with no information and no legal assistance. I assume that you are considerably indebted to the law firm that you've hired for substantial amounts of money, in order to show that an injury has been inflicted upon a substantial industry in Maine.

---

[1] High quality tablestock which is currently used for processing could be diverted to tablestock market.

[2] The Province is to engage in negotiation with Agriculture Canada.

I will reserve any questions I have until we hear from Mr. Greaves, and we'll come back and explore some of the problems confronted by the potato industry. Mr. Greaves.

Mr. GREAVES. Thank you, Senator Cohen. I appreciate very much having the opportunity to present a statement before this committee today.

My name is Stanley Greaves. I live in Presque Isle, Maine, which is located in the center of a large potato production area in Maine. I'm employed as executive vice president of Maine Potato Sales Association, which is comprised of potato sales agencies and potato packers who market in interstate commerce an estimated 80 percent of the total Maine potatoes shipped annually in fresh form. Growers in the State of Maine harvested an estimated 2.6 billion pounds of potatoes this year, which will be marketed in fresh, processed form or seed during the coming 8 months.

Our production area in Aroostook County, Maine, is very close to the potato production areas in the maritime provinces of Prince Edward Island, New Brunswick, and Quebec, Canada. In fact, truck transportation costs to our traditional markets are the same from Aroostook County, Maine, as from New Brunswick. Transportation costs from Quebec to New York City are lower than from Maine. Only Prince Edward Island origins require higher freight costs to our markets than from Maine origins. The production in neighboring Canada this year has been reported at 2.7 billion pounds, which is approximately equal to our Maine production. In the 1960's and early 1970's, Maine, New York, Pennsylvania, and other Eastern States reduced potato acreage to accommodate the expansion of production in Western States. We cannot afford to cut our acreage further to provide a market for expanded Canadian production.

The financing for the Aroostook County, Maine, potato industry is accomplished by about 40 percent by Farmers Home Administration programs. The balance is done through production credit services, local banks, and self-financing. As of July 18, 1981, Farmers Home Administration had outstanding loans to potato growers in Aroostook County, Maine, totaling approximately $88 million. The delinquent accounts totaled $25 million, which is 28 percent of the total amounts outstanding. Although Farmers Home Administration loans are considered a last resort, after it has been determined that the applicant has been unable to obtain financing through private sources, it can be assumed that lenders other than Farmers Home Administration have also accumulated large numbers of delinquent accounts over the past few years.

If the financial rewards from potato farming in Maine do not improve soon, many of our farms will be repossessed. Many farmers who grew up on potato land will be evicted from their homes and possibly from their accustomed rural environment. It is not difficult to understand what has happened during recent years to cause such a depressed situation in our potato-oriented community. The fall potato producing States in the United States have produced between 10 and 15 percent more potatoes for 3 years in a row—1977, 1978 and 1979—than could be marketed successfully. This resulted in prices to growers being at levels of about 50 percent of the production cost.

The oversupply of potatoes was recognized in Washington 2 years ago, after Maine potato growers blocked the highways at international border points in Maine with trucks, tractors, bulldozers, and piles of potatoes, to prevent dumping surplus Canadian potatoes in our already oversupplied U.S. markets. The growers in Maine regret having to create international incidents to be heard in Washington. However, when a farmer faces loss of home and livelihood, he will take whatever action he feels most appropriate to survive. Although too little and too late, the Federal Government initiated a livestock feed potato diversion program in 1979, throughout several fall production States, and again in 1980, in a small area of Aroostook County, Maine. The purpose of this program was said to be to remove a surplus from the market.

The ironic part of this move was that during the same period, neighboring Canada also had a similar surplus situation. Under their Agricultural Stabilization Act, Canadian potato growers were subsidized for potatoes sold in the markets, including U.S. markets.

So while our Government was diverting surplus to relieve the oversupply situation, our neighbors in Canada were dumping part of their surplus in the same U.S. markets we were trying to adjust. It is very important that this committee recognizes the degree of penetration of Canadian potatoes into the U.S. markets during the past few years. I have figures here that were prepared by the U.S. Department of Commerce, Bureau of Census. These figures show that during the season of 1976–77, there were 75 million pounds of Canadian potatoes exported into the United States. This volume has increased to 391,232,500 pounds last season, which is nearly a 500 percent increase.

Canadian potato exports to United States

Shipping season, July 1 to June 30:	*(Thousand pounds)*
1976–77	75, 552
1977–78	154, 850
1978–79	131, 960
1979–80	174, 210
1980–81	391, 232

This trend is a concern to the U.S. potato industry for several reasons.

One, during recent trade negotiations the United States conceded tariff reductions on Canadian potatoes entering the U.S. by 5 cents per hundredweight per year for 8 consecutive years. Another concern is that the Canadian production costs are heavily subsidized by both the provincial and Canadian Federal Governments. A third concern is that the Canadian Government has a goal of more than doubling the agrifood production in Canada by the year 2000.

Production of apples and potatoes, the most important horiticultural crops in Eastern Canada, is likely to be expanded for the purpose of export to the United States and other countries. A bold program such as this, backed heavily by Government grants for production and marketing programs, is unfair competition for U.S. producers. Canadian markets can only absorb 40 percent of Canada's agricultural production now. When the production is doubled and U.S. markets targeted for Canadian products, U.S. farmers will be damaged.

Canadian Agriculture Minister Eugene Whelen recently reported, and I quote:

> Financial assistance by the Canadian government will selectively provide credit risk capital and projects to promote exports. Efforts to reduce tariffs on Canadian agricultural food exports will continue.

We know that many grant programs are available to Canadian potato growers, potato processors and marketers now. As these subsidy programs are expanded, our U.S. farmers will be threatened, even more than today, with damage from subsidized foreign imports.

The fourth concern we have is this high exchange rate of the U.S. dollar. It makes it very attractive for Canadians to sell agricultural products in the United States. It also is a very good incentive for U.S. buyers and buyers from offshore countries to purchase from Canada. With the U.S. dollar, worth $1.17 in Canadian currency, plus the subsidy advantages, which enable Canadians to quote low, we are out of the competitive markets—both in the U.S. and overseas.

The cost of growing, harvesting and storing an acre of potatoes this year has been approximately $1,445 in Maine. Potato production costs are relatively equal throughout the country. In order to recover these production costs, a grower must be paid approximately 6.7 cents per pound at the farm gate for his U.S. No. 1 grade potatoes. Prices are currently about 3.8 cents per pound, which means the average sale is showing a loss of 2.5 cents per pound. At this rate, it can be expected that Maine potato growers might lose $25 million for the current marketing season.

This situation has been partly caused by Canadian potatoes entering the United States through Maine borders, and being sold at prices below quotes from Maine. As of November 6, 1981, over 11 million pounds of potatoes have been imported through Maine from Canada and sold at prices considerably below production costs. The damage caused to domestic producers by subsidized Canadian potatoes can progressively worsen in years ahead, unless our U.S. legislators take steps to renegotiate tariffs and quotas to maintain a reasonable market supply and demand situation. As an indication of some of the subsidies that are going on in Canada, in case you wonder, I'd just like to mention a few.

There are numerous direct subsidy programs for Canadian agriculture. One is their Agricultural Stabilization Act. This provides that the Canadian Government takes the 5-year average price, and indexes it by the cost of production. The difference between the average price received and this 5-year average will be a subsidy. They have done this 2 out of the last 3 years. They have storage construction grants in Canada that entitle three producers to get together and obtain a grant of one-third the cost of the joint storage up to $500,000. This is a grant. We have to compete with that with our own money. Seed inspection costs are subsidized. They have all their seed inspected, and the Government pays for this. They have a farm development program, which gives a grant of $25,000 to eligible people to develop an existing farm.

They have a new farmer program. Another $25,000 grant to establish a farm for the first time. A family farm development program, which gives financial assistance and technical support, provides another $25,000.

On an existing farm, they have agricultural limestone assistance. This is very important to us in the Maine potato industry, with our acid soils. We have to add lime practically every year. They provide free soil testing, and they pay the transportation for the lime to the farm, and so forth. This is a great asset to Canadian growers.

They have had a Farm Adjustment Act, where they gave loans to farmers at 5-percent interest prior to 1980. This is being updated to provide the provincial lending rate for their interest in the future. I believe they have some $11 million budgeted for the coming session on this program.

They have programs for disease eradication. They have a seed farm to build new seed for their industry across the border from us. The Canadian Government contributes about $350,000 a year toward this program. Seventy-five percent of this program is Government money. They have postharvesting testing, where they pay for seed tests in Florida during the winter months. We have this, but we pay in full without Government help. The Canadian Government has programs to disinfect storage and bury cull potatoes. Potatoes cause a big problem with waste disposal rules and regulations which now exist. Their Government takes care of this problem. The Canadian Government also buys agricultural lime. The Government contributes $11 per ton for agricultural lime. This is all grant money to the producers.

The Canadian Government has a variety of export assistance programs for their producers and sellers. They have an organization they call Potatoes Canada. This year they've budgeted some half a million dollars, which will be 50-percent federal money, to develop offshore markets. This is a great asset to them.

For every load of potatoes that has to be inspected in neighboring Canada, there's a $5 fee. We have to pay $55 for every truckload that we have inspected. The difference between their $5 and our $55 is subsidy.

They have regional economic expansion programs. If I wanted to build a potato processing plant, and I lived in Canada, they would grant up to 25 percent of the capital cost of that project. Plus they'd give an amount of money for each job that was created.

Interest subsidies exist also. They have freight rate subsidies. These are direct subsidies. In addition to the direct subsidy programs, the Maritime Provinces have many indirect programs which they call services. They have crop insurance for potatoes. Fifty percent of the crop insurance premium is paid by the Federal and provincial governments. They have advance payments for storage crop. If I was a farmer in Canada, and I had my crop in storage, and I had debts due, and I was paying 18 percent in interest, I could borrow money to pay for that crop and storage, and all the interest—100 percent—would be paid by the Canadian Government. They have subsidy of the interest borrowed at any source. The Government pays one-half of the interest rate, above 5 percent, to a maximum of 3 percent of the actual loan rate.

These are some of the programs that they have in neighboring Canada that we don't have, and which make it very difficult for us to compete.

With that, I'd like to urge this subcommittee to give favorable consideration to restricting the import of items which will damage domestic producers in the United States. Particular attention should be given to items subsidized by the Canadian Government and items which are being sold at prices below the cost of production.

Senator COHEN. Thank you very much, Mr. Greaves.

Have you ever presented that list of examples to members of the administration?

Mr. GREAVES. I haven't yet, Senator, simply because this list was being put together by officials of the governments of New Brunswick, Prince Edward Island, and Maine. We kind of wanted to agree on the final version before we made it public.

Senator COHEN. In other words, you had to go to the Canadian Government or the Maritime Provinces in order to get the information?

Mr. GREAVES. Yes; we did.

Senator COHEN. Do you know whether or not this information was available through our agencies?

Mr. GREAVES. Not to my knowledge. We could get very little information from our own agencies.

Senator COHEN. Mrs. Kelley, what's been your experience concerning the availability of data, such as import-export statistics. I think you said during your testimony that the export statistics do not coincide, but that they are in contradiction. What did you mean by that?

Mrs. KELLEY. When I was trying to prepare the petitions, I find at the present time that any time you get the statistics both from Canada as well as the United States, you get altogether different statistics, and even the disagreement is not the same. I can give you a shining example. In 1979, the U.S. seed imported from Canada, our statistics, the U.S. statistics read 61 million while the Canadian statistics for the same time read at 52 million. That's a difference. If it happened to be in truckloads, it would be 172 truckloads that disappeared someplace between the border one way or the other. This is very true when it comes down to the potatoes that went from the United States into Canada. In 1979, we show 237 million pounds, and they show 373 million pounds. Now that's a difference of 135 million pounds of potatoes, which is 2,700 truckloads, that they're showing we shipped more potatoes in than we show. That's the difference in statistics.

Another report during the same period showed that all table stock or seed potatoes exported to Canada as 193 million pounds, which is another different figure altogether, and it shows in stats Canada, their figure for the same time was 322 million. So all the figures just vary. They do not coincide, and I think this is very important that the statistics from the United States as well as Canada should reach a determination as to how some of these figures are shown in metric tons. I think the difference in the seasons has a great deal to do with it, but I think they should come to an agreement where they can come up with the figures, because the potatoes are disappearing.

Senator **Cohen**. You indicated you also had difficulty in defining what was or was not a subsidy. You've heard Mr. Greaves list about 15 types of subsidy programs. Did you have any conversations with either USDA or any other agency concerning the types of Federal programs available to Canadians?

Mrs. **Kelley**. Actually, when I was filing the original petition in the countervailing duty, I went down with a list of subsidies and there were some 30 of them at that particular time, and they were included in my petition. I did get those from the Canadian people and not from U.S. officials when I was filing the petition. It's very, very difficult to come up with all this information, and as Mr. Greaves has stated, we did have to meet with them and we have agreed that we would give a comparison. The draft is not quite finalized at this time.

Senator **Cohen**. Initially you decided you were going to file a countervailing duty petition. Why did you decide on that particular route as compared with the antidumping petition?

Mrs. **Kelley**. I decided on the countervailing duty because I did have a list of 30 which I considered subsidies. Any time that you don't have to pay the complete interest, to me that's a subsidy, but I'm not sure it is under the gap. Any time freight is subsidized, I feel that is certainly a subsidy, and I understand that that one is. But it is very, very difficult for a layman to determine what is a subsidy. As far as I'm concerned, any time a producer receives money from the Government, he's subsidized.

Senator **Cohen**. You indicated that when you were in the process of filing that countervailing duty petition, USDA officials recommended that you drop it and suggested, as a matter of fact, that the reason Canadian potatoes were penetrating the Maine and U.S. markets, in such large numbers was because their product was superior. Is that right?

Mrs. **Kelley**. That is what I've heard many, many times. Actually, some of the problems we have in regard to pricing is that particularly Prince Edward Island, they ship a 2¼-inch potato. Now, that's pretty difficult to compare the price on a 2¼-inch potato with a U.S. No. 1, which is 1⅞ inches, and that is some of the comparisons that are done. As I did state, when we did check at the border, we found that these potatoes did not meet U.S. No. 1, and in many instances they did not meet Canadian No. 1.

Senator **Cohen**. In fact, you also indicated during your testimony that Canadian potatoes were being shipped into this country as seed stock, seed potatoes under a lower tariff, and then resold in this country for table stock. Is that not correct?

Mrs. **Kelley**. I think this has happened. In fact, the Maine Potato Council knows of many instances when this has occurred in our own State, when people have imported seed and repacked them, and they have gone to the supermarket shelves. It also happens, as I stated, with many repackers who receive the seed. When seed potatoes come across in my office, we do have a division of the seed industry, therefore, I receive the slips in regard to the potatoes, where they are going for destination; and this is how I got my information. But I certainly could not get the cooperation that I needed out of the PACA and Customs in order to prove that these potatoes were going on the supermarket shelf. And I have no right to walk into a repacker's and try to inspect his potatoes.

Senator COHEN. Now, could the USDA furnish you with adequate pricing and market information?

Mrs. KELLEY. No; I did not receive the pricing and marketing information from the USDA. I tried to get that on my own. I tried, when I was filing the petition, to go back and find out how much the Canadians had to pay for bags, how much their transportation was, and I tried to work it back to the farm gate price without any help.

Senator COHEN. And was that information that you did get, or were able to collate, at times conflicting?

Mrs. KELLEY. Yes, it certainly was.

Senator COHEN. Since potatoes are perishable, is the relevant data on import surges even more important to obtain, even though it's more difficult to obtain?

Mrs. KELLEY. It's very, very difficult, but I think it's very important because there are ups and downs. But by the time I get the information, usually we're on the downside.

Senator COHEN. What prompted you to hire a Washington law firm?

Mrs. KELLEY. Actually, I was told in Washington that the only way I'd ever win a petition would be to hire a legal firm, and I believe maybe that's true, but it's very, very expensive—$200 an hour. When they call me on the telephone, I shudder, because I can just see the dollars. [Laughter.]

Senator COHEN. What do you estimate such a petition is going to cost?

Mrs. KELLEY. Probably $100,000 to $120,000, and on my budget, that's quite expensive.

Senator COHEN. What have you been told is the estimated time required, assuming that any relief would be granted and knowing that the history of countervailing duty petitions is not an encouraging one? What time frame you have been advised would be involved?

Mrs. KELLEY. Approximately 6 months.

Senator COHEN. Now, I understand the National Potato Council supports your efforts. How many growers do you actually represent?

Mrs. KELLEY. The National Potato Council represents 18,000 growers. The Maine Potato Council represents 1,100.

Senator COHEN. Did the National Potato Council or the Maine Potato Council have any input or participation in the multilateral trade negotiations?

Mrs. KELLEY. Well, as I stated, I did have many letters of contact with Robert Strauss. His office also called and asked me for a list of subsidies that the Canadians had at that time. After the agreements were pretty well reached, the executive director of the National Potato Council was appointed to ATAC. I believe that just recently the new executive has been appointed. I understand that organization is still viable.

Senator COHEN. What results or assistance do you look forward to in the potato task force which has recently been established by Secretary Block?

Mrs. KELLEY. I've seen many task forces.

Senator COHEN. I think you indicated that you were excluded or did not have the opportunity to participate when that task force came to Maine?

Mrs. KELLEY. The National Potato Council was allowed to come down and meet with them in June. I, myself, and Mr. Greaves have been sending in the information that we have to the task force. At that time most of the figures that were given back to us were figures that we had sent down recently. I asked, perhaps, if someone from the National Potato Council or myself could be included on the task force, because I feel that we have some information that they may not have and might be valuable to them, plus I'd like to know where the task force stands. I understand that the final paper is being drafted at this time.

Senator COHEN. Well, what recommendations would you have for this interagency group to be more effective?

Mrs. KELLEY. I think it's very important that they talk to the people that are complaining and find out just exactly what their complaints are. I think that they could get some information from Maine and compare it to the information they got from Canada, and I think they'd find out that it certainly does not coincide. And anytime it doesn't concide, I think it's time for people to really look into the situation. I believe that Customs should work more closely to try to get the records, the exact statistics of what is happening in regard to exports entering the United States or exports from the United States along the borders.

Senator COHEN. If I could summarize your situation, you are in the predicament of having been, as I indicated before, bounced from one petition to another with very little, if any, information coming from our own Government. You have been forced to seek out a professional economist who, after analyzing the meager evidence that was available, was unable to provide you with any significant assistance. And now you are back to a law firm in Washington that costs $200 an hour, and anticipating costs of $100,000 to $120,000 for a timeframe of at least 6 months, not knowing if any relief indeed will ever be granted. Is that essentially the situation that you find yourself in?

Mrs. KELLEY. I believe you have expressed my frustration very well.

Senator COHEN. Mr. Greaves, let's come back to you for a moment. You mentioned your association represents those who market approximately 80 percent of Maine's potato crop. Do you have any figures on the value of those shipments on an average—the total number of truckloads?

Mr. GREAVES. Well, according to the Market News Service, which has an office in the center of our potato area, last year we shipped some 26,500 truckloads of fresh potatoes. They would be five hundredweight equivalents each; that's the way they reported them. I would estimate that the value of each one of these loads would average $3,900, which would give us a total of some $101 million value of fresh product shipped last year. That's only the fresh. When you stop and think of the processed product that's having the same problem as the fresh, you might add another $100 million to it. So there's a substantial volume that goes out of our area each year.

Senator COHEN. What percentage of Eastern Canada's crop is exported, both to the United States and any offshore markets? Do you have any figures on that?

Mr. GREAVES. I would guess that better than 25 percent. I know the total export last year was some 6.2 million hundredweight. Of that, 50 percent was to the United States, some 3.7 million hundredweight. I think it's quite significant that neighboring Canada shipped some 25 to 27 percent, as many potatoes into our traditional markets as we did last year.

Senator COHEN. Mrs. Kelley mentioned that wholesale prices were, No. 1, difficult to come by. But realistically, how valid are wholesale prices, FOB terminal markets in determining what's actually happening in Canada? Are farmgate prices actually more realistic, and are they even available?

Mr. GREAVES. Farmgate prices vary. You have farmers located in different places. They have different costs. So we usually quote on a loaded basis. The farmer will furnish the bags, load his potatoes, and you buy them f.o.b. origin. This is the way the Market News Service reports and it's the customary way of doing business. I don't know how you ever get the farmgate price.

Senator COHEN. What percentage of the fall round white market would Maine and New York supply, and what was the estimated Canadian percentage of this market last year?

Mr. GREAVES. Of course, I can only estimate on this, but I would say that Maine, New York, and possibly Pennsylvania would market 80 percent of the round white potatoes in our market area or in the United States. Another 20 percent would be Canadian potatoes. They have 20 percent of this market.

Senator COHEN. Would you explain the transportation discrepancies and differences between the Maritime Provinces and Maine to eastern U.S. shipping ports?

Mr. GREAVES. Well, the Canadians, for instance, try to equalize the market situation as far as freight is concerned. They do have a subsidy from Prince Edward Island and New Brunswick to the Quebec area. This is approximately 30 percent of the freight rate. They don't say they're subsidizing the farmer on this; they're telling us the money goes to the trucker or the railroad, not the farmer. But it's part of the freight cost, and this has given a great advantage to people in Quebec who can buy PEI potatoes and go via Canada to Quebec. They're located right on the New York border and there is quite a freight advantage that way.

Senator COHEN. Can you give me any other examples of unfair trade practices?

Mr. GREAVES. I think the unfair part of it is subsidizing the production and the storage and the financing and the shipping. These are all practices which when added together make it quite difficult for U.S. producers to compete.

Senator COHEN. I understand that individual Provinces actually can restrict potato imports at certain times, both from the United States and other than Canadian origin.

Mr. GREAVES. They do this immediately. I think we had an instance this year where they prevented bulk potatoes going into Quebec Province. I have talked to the customs people on the border and they say they can do this. But it's something that comes instantaneously. They don't go through any procedures like we have to go through.

Senator COHEN. In other words, they don't have to file an antidumping or countervailing duty petition that will take 6 months, $120,000, and impose a burden of proof of substantial evidence. Their petitions don't require administrative procedures which go all the way up through the various agencies and then possibly be overruled by ITC, vetoed by the President, or overridden by Congress.

Mr. GREAVES. What I've seen is that they just determine that they don't need our potatoes, and therefore they shut the border. I don't know who does this. I've heard it's the Agricultural Department.

Senator COHEN. Thank you very much, Mr. Greaves, Mrs. Kelley. Please remain seated. I'd like to move on to Mr. Dunsmore. Would you proceed, please?

Mr. DUNSMORE. Mr. Chairman, my name is George M. Dunsmore. I am currently serving in the capacity of commissioner of agriculture for the State of Vermont. I want to thank you for the opportunity to testify on the effects of the U.S. and Canadian trade practices on the Vermont maple syrup industry. I appreciate your accommodating me at this time.

At the annual meeting of the Vermont Maple Sugar Makers Association last January, a resolution was passed calling for, among other things, some form of relief from the importation of Canadian bulk maple syrup. Bulk syrup, in barrels, tanks or drums, is purchased by packers for repackaging in retail containers for further processing. The Vermont Maple Sugar Makers Association has charged that imports of Canadian syrup have increased to injurious levels because of prices that are lower than Vermont syrup prices.

Since the passage of the January resolution, the sugar makers have written to the Vermont congressional delegation asking that an investigation into their charges be undertaken. Directors of the association also elected on October 14, 1981, to file a petition with the International Trade Commission under section 201 of the Trade Act of 1974 for the institution of import relief measures.

After hearing what Mrs. Kelley said this morning, I must say that the incentive to move ahead isn't very good. U.S. maple syrup production in the years 1978 to 1981 was 12.7, 13.4, 10.7, and 15.5 million pounds respectively. The corresponding figures for Vermont, the U.S. largest maple producing State, were 4.5, 5.1, 3.5 and 6 million pounds. Canadian production amounted to 21.6, 31.8, 33.9 and 40 million pounds during the same period, with Quebec accounting for about 90 to 95 percent of the total Canadian production.

SELECTED MAPLE SYRUP STATISTICS—CALENDAR YEARS 1978–81

PRODUCTION

[Amounts in thousands of pounds][1]

	United States	Canada	Vermont	New York
1978	12,694	21,621	4,510	3,630
1979	13,409	31,793	5,115	3,465
1980	10,703	33,876	3,465	2,673
1981	15,510	39,950	5,995	3,641

[1] 1 U.S. gal equals 11 lb.

SELECTED MAPLE SYRUP STATISTICS—CALENDAR YEARS 1978–1981—Con.

CANADIAN EXPORTS

	United States	Percent of total	Total	Percent of crop exported
1978	8, 776	91. 0	9, 648	45
1979	15, 275	95. 0	16, 032	50
1980	10, 654	89. 0	11, 689	35
1981 (January to June)	6, 459	89. 6	7, 051	18

AVERAGE BULK SALES PRICES

[Cost per pound]

	Canada	Vermont		
		Fancy grade	Grade A	Grade B
1978	$0. 69	$0. 90	$0. 84	$0. 75
1979	. 90	1. 07	1. 03	. 85
1980	. 89	1. 20	1. 10	. 89
1981	. 83	1. 05	1. 00	. 89

FRANKLIN COUNTY CO-OP

	Purchases (pounds)	Sales (pounds)	Inventories (pounds)	Average price (per pound)
1978	225, 000	225, 000	0	$0. 90
1979	150, 000	150, 000	0	1. 00
1980	200, 000	200, 000	0	1. 05
1981	225, 000	80, 000	145, 000	. 80

The United States is by far Canada's most important maple syrup export market, taking 89 to 95 percent of the total Canadian exports during the last 4 years. U.S. imports of Canadian syrup were 8.8 million pounds in 1978, 15.3 in 1979, and 10.7 in 1980, and 6.5 in January through June, 1981, which is about equal to Vermont's production for 1981. Canada imports virtually no maple syrup and very little maple syrup is exported by the United States.

Prior to 1968 maple syrup was subject to a conventional duty of 1½ cents a pound. An exchange of concessions during the Kennedy round during 1964–67 reduced the tariff by stages to a conventional rate of zero by January 1, 1972. Canada also maintains a zero duty on imports of maple syrup, but there are none. The problem of lower priced Canadian syrup imports has become much more acute in 1981 due to the unusually heavy production both in Canada and in the United States. At a time in the session when little additional Vermont syrup will be sold, an estimated one-quarter to one-third of the Vermont crop remains unsold and in storage. Data from Vermont's largest maple co-op reveals that no stocks were held in 1978 through 1980. However, the co-op has 145,000 pounds remaining in storage of the 225,000 pounds purchased in 1981.

If inventories remain high as sugaring season approaches, it is likely that some Vermont producers will be forced to restrict or abandon 1982 production. The maple syrup crop is an extremely important source of income to many Vermont farmers, particularly in some of the northern counties where it ranks as the second or third most important enterprise.

In conjunction with the additional costs of storing unsold syrup from the large 1981 crop. bulk maple syrup prices have declined to below 1979 levels, or 10 to 15 percent lower than 1980 prices. In addition, the costs of production in the northeast have risen about 15 percent above the 1980 costs. Although some Vermont packers purchase from Vermont suppliers whenever possible or feasible, it is obviously advantageous for packers to switch to Canadian supplies when there is a price differential of the magnitude imposed by the U.S.-Canadian exchange rate.

The price advantage afforded Canadian exports by the recent monetary exchange rate is the factor blamed most frequently for the problems facing the Vermont maple syrup industry. During the current season this has reduced Canadian syrup prices 15 to 20 cents per dollar when sold to the American packers. That would equal something like $2 to $2.50 per gallon. With no means of affecting the exchange rate or reducing the price differential between Canada and the United States, prices via import charges, the U.S. industry is subject to a constant disadvantage. In addition to the exchange rate burden, Government assistance to the Canadian maple syrup producers is believed to give Canadian syrup unfair advantages.

In 1976 at a time when production was not rising as quickly as sales, the Provincial Government of Quebec initiated a subsidy in the form of a 75 cents per tap payment to eligible maple syrup producers who converted from the manual methods of collecting maple syrup from separate sap buckets to connected plastic tubing and vacuum pump systems. This subsidy equaled 15 to 20 percent of the total cost of tube installation. With an equipment life of approximately 10 years for the newly installed tubing and the four taps required per gallon of syrup produced, the 75 cents per tap subsidy translates into approximately 30 cents a gallon production subsidy.

Originally, the subsidy was granted without restriction to farmers and nonfarmers alike, for tapping maple trees on any lands. The scope of the program was narrowed until only bona fide farmers tapping their own trees on private lands remained eligible for the subsidy. Although the subsidy program expired in 1981, the benefits of this conversion to a less labor-intensive system will continue to accrue to Quebec producers for many years.

Approximately 1.3 million taps were converted to tubing during the 5-year period that the subsidy existed. Currently 55 to 60 percent of the Quebec maple producers now use the new tubing. Moreover, the amount of sap collected and hence the syrup produced from tubing may increase 60 to 70 percent; that is to say, significant increases in syrup production can be realized through tube collection methods even if the number of trees tapped remains constant.

Assistance to the Canadian maple syrup producers is also granted by the Federal Government via interest-free loans for advanced payments. These loans enabled qualified producer groups to obtain interest-free loans to pay syrup producers up to 50 percent of the expected farmgate price at the time of purchase from the producer, and to store the syrup until it is marketed. These loans, also applicable to other farm crops, are designed to facilitate the orderly marketing of crops and to encourage the storage and timely sale of products rather than sales of the entire crop immediately upon harvest.

Nearly 50 percent of the current Quebec syrup crop has been purchased from producers using these loan programs. The producer group negotiates the loan with a commercial financial institution and guarantees the repayment of the loan on or before a specified date. This year outstanding loans of this type are due by March 31, 1982. If the loan remains unpaid by the due date the group, rather than the Government, becomes liable for the interest on the loan. Failure to repay the loan also renders the group ineligible for future advance payments until the debt is retired. These loans serve to reduce the operating costs of producer groups and cooperatives, and in periods of high interest rates, could significantly affect the group's product pricing.

In addition to the above disadvantages, U.S. maple syrup producers benefit from no State or Federal incentives, price support, marketing orders, or subsidies for their products. Some method of making domestic syrup more competitive with imports or stabilizing prices is crucial to the continued viability of much of Vermont's maple syrup industry.

When it became apparent to the Vermont Maple Sugar Makers Association that market conditions were seriously jeopardizing their 1981 sales and profits, a letter to their U.S. congressional delegation produced a very prompt response. The Vermont Maple Sugar Makers Association members, in common with most businessmen, are not well versed in the existence or operation of domestic legislation or international agreements governing that trade policy. However, the options open to industries wishing to resolve a trade issue were outlined by the Vermont Department of Agriculture, Department of Commerce, and the ITC representatives who also visited Vermont in June of 1981 for a meeting with the sugar makers and myself and congressional aides.

All the agencies involved have displayed a high degree of willingness to provide the sugar makers with information and assistance on this issue. Nevertheless, we cannot know at this time whether or not the individuals responsible for investigating the sugar makers' complaints would find relief measures warranted.

A more detailed account of the Vermont syrup industry is not possible at this time. It is hoped that the preparation of this petition for import relief will yield the additional information necessary to determine the validity of the complaints against Canadian imports.

With that, Mr. Chairman, I want to again say thank you. I would also say that although I aimed my testimony here today at the maple syrup industry, there are other small industries in our State, such as carrot production and the manufacture of syrup equipment, that are being hindered by the same relationship.

Senator COHEN. Thank you very much, Mr. Dunsmore.

Tell me, in your State, do you have available, or do your people have available, this tubing technique that's being utilized and subsidized by the Canadians?

Mr. Dunsmore. We have it available without any subsidy at all, and our bigger producers are moving in that direction but are clearly at a disadvantage to the Canadians.

Senator Cohen. And the Canadian Government, as I think you indicated, provides between 15 and 20 percent of the costs, amounting to a 30 cents a gallon subsidy which your people cannot compete with.

Mr. Dunsmore. Right.

Senator Cohen. What was the rationale of the maple syrup industry in deciding to file a section 201 case, rather than the other available remedies?

Mr. Dunsmore. Frankly, we invited the ITC, the Department of Commerce and advice from USDA. That is the avenue that they selected at this point. They felt some kind of equalizer in the name of duty or tariff would be the way to go, and the section 201 would be the way to achieve it through the trade agreement.

Senator Cohen. As I understand it, you've got to show under that section that imports are increasing, which you feel you can definitely prove, that U.S. industry is suffering serious injury, and that the imports are, in fact, a substantial cause of that injury. You would then ask the President to proclaim appropriate relief based upon an ITC recommendation or the advice of the trade policy committee.

Mr. Dunsmore. Right.

Senator Cohen. It was interesting to me that you said as you concluded your testimony that you don't have very much information available, and it's your hope that the petition may yield more information.

Mr. Dunsmore. The result of putting the petition together, I guess, would be the better way to put it. We're still in the process of collecting that information from the other 13 major maple syrup producing States, as well as going to the Canadian Government and obtaining as much information as we can. We face the same frustration as Mrs. Kelley expressed with the lack of information available through our own agencies. Maple syrup is lumped together with other sugars, and it's very difficult when you come to Customs or any of the statistical collecting agencies to separate it out.

Senator Cohen. Well, in order to file your petition, are you going to need data on a regional basis?

Mr. Dunsmore. Yes, we will.

Senator Cohen. Has it been your experience that our agencies collect and maintain data on a regional basis, or do it on a nationwide basis?

Mr. Dunsmore. More a nationwide basis. In this case, 14 States, rather than the individual.

Senator Cohen. If that's the case, how are you going to separate it out and come up with the information on a regional basis if, in fact, the records aren't maintained on a regional basis?

Mr. Dunsmore. It's not going to be easy.

Senator Cohen. Because maple syrup has a natural boom-and-bust cycle like any agricultural commodity, does this present any particular difficulty to you in interpreting the data that's relevant to your case?

Mr. DUNSMORE. We haven't found that to be the case yet.

Senator COHEN. When agricultural products are in a whole new marketing and crop season, is it difficult to separate the effects of the Canadian subsidies from the other marketplace factors?

Mr. DUNSMORE. No, I don't think it is.

Senator COHEN. Do you think you'll be able to satisfy the ITC of that?

Mr. DUNSMORE. Well, I felt better about that before I heard the frustrations expressed here this morning. [Laughter.]

I wouldn't say, with any great degree of confidence, that I feel satisfied. I can't prove that at this point, but we'll work at it. The cost factor is going to be another one that will influence the sugarmakers, because they just do not have that kind of capital available.

Senator COHEN. Let me just make one gratuitous recommendation to you. I think you testified today that the subsidies that encourage many of the farmers in Canada to switch over to this new sort of secondary and tertiary drilling technique for the trees has since been discontinued. The history of many of these petitions, whether you're filing under the countervailing duty section or section 201, that once there's a determination that the subsidy has ended, then there is no incentive or very little incentive on the part of our Government to go forward with any kind of relief for our own farmers. They say that the subsidy has expired. It's terminated. The Canadians have agreed to discontinue that sort of practice and, therefore, case dismissed.

I think the upshot of your testimony is that the effects of this program will linger on long beyond the termination of the subsidy. In fact, it has given a very significant and sizeable segment of the Canadian farming population an incentive and a subsidy over and above their U.S. counterpart, which will continue even though the subsidy has been discontinued. And that, to me, is a very important factor which I would recommend that you stress.

Mr. DUNSMORE. Thank you.

Senator COHEN. Thank you very much for your testimony. I hope that you will be able to sit and listen to the remaining witnesses who are going to come before us, so if any evidence is presented to the committee which you might feel should be disputed or contradicted, you will be in a position to recommend that to the committee.

Our next panel of witnesses I'd like to introduce to you is Mr. James Salisbury, a fisherman and member of the New England Regional Fisheries Management Council and I take this opportunity to congratulate you, Jim, on your recent appointment to the council; Mr. Edward Bradley, Jr., who is counsel to the Maine Fisheries Cooperative Association; and Mr. W. J. Kuehne, executive vice president of the Northwest Independent Forest Manufacturers Association.

I certainly appreciate your willingness, gentlemen, to appear today and I look forward to your testimony. Again, in the interest of time, if you can summarize your remarks, your full written statements will become part of the permanent record.

TESTIMONY OF EDWARD F. BRADLEY, JR., ATTORNEY, COUNSEL TO THE MAINE FISHERIES COOPERATIVE ASSOCIATION, PORTLAND, MAINE; JAMES SALISBURY, FISHERMAN AND FISH BUYER, MEMBER, NEW ENGLAND REGIONAL FISHERIES MANAGEMENT COUNCIL, MILBRIDGE, MAINE; AND M. J. KUEHNE, EXECUTIVE VICE PRESIDENT, NORTHWEST INDEPENDENT FOREST MANUFACTURERS ASSOCIATION, TACOMA, WASH.

Mr. **Bradley**. Mr. Chairman, thank you for the opportunity to testify on the impact of Canadian fish imports on the New England fishing industry. My name is Ed Bradley. I am counsel to the Maine Fisheries Cooperative Association. Our association is a statewide organization of independent owner-operated vessels which participate primarily in the groundfish industry in Maine and New England, stretching from the coast of Maine to Georges Bank. They are independent fishermen, they are small businessmen, and in many cases have made significant investments, often over a million dollars, in their equipment which they use to harvest fish off the coast of Maine.

I think it is fair to say that the impact of Canadian fish imports on their businesses is in their minds the most significant issue facing them as they struggle to survive in today's economy. Even as we are talking today, thousands of pounds of Canadian fresh fish are being imported into U.S. fresh fish markets in New England, often initially through Maine ports and over Maine roads. In fact, as recently as the late 1970's, members of our association who are normally, I would say, extremely responsible in terms of participating in the processes by which these issues are addressed and resolved, felt forced to close down the port of Portland to the importation of Canadian fish, a dramatic example, I believe, of how emotional the issue is, and how close we all are to the violence which you described in your earlier comments.

As an association we have attempted to put a cap on the emotions and to address this issue rationally. I find it incredible how close the frustrations we've experienced are to those expressed by Mrs. Kelley in her earlier testimony. It's fair to say that our experiences are almost identical to those which have been experienced by the potato growers, and it was not until I heard her speak this morning that I fully realized that.

The context in which the Canadian fish imports affect the fishermen of New England is expressed in my testimony and I won't go through that in any detail, but I would like to hit the highpoints. The major impact of the Canadian import is that it affects the price structure for the fresh fish which is the primary product of the fishermen I represent. It does this in two ways: first, it unrealistically reduces the price of fresh groundfish in the markets in which we sell. It sets an unrealistically low threshold price which affects the price which we sell at through the major portion of the season. Second, because of the great volume of Canadian fish that comes in, it has the effect of depressing the high prices which occasionally result from normal market forces which exist. The result is that the fisherman is caught in a price squeeze.

The threshold price, the one he sells at most often, is very low. When market prices coincide to create the possibility that he would profit from a higher price, Canadian fish is dumped, depressing the high price of limiting its duration in an unnatural and artificial way. This has a pervasive effect in all aspects of our industry. It inhibits the development which would otherwise occur and, in fact, frustrates the efforts which all of us are involved in in Maine and New England to try to take advantage of the 200-mile legislation which Congress passed and the increased opportunities which the availability of fish off our shores has given us.

I won't go into that in great detail, but I would like to give you a few examples. The fisherman is forced to fish at a price below which it costs him to harvest. As a result of that, he's always a little bit behind. As a result of that, he's always fishing harder, he's pushing his equipment harder, it wears out more quickly. He's pushing himself further and further offshore. He's putting himself into situations where he's never been and he doesn't belong in the kind of equipment he has. It's an economic problem; it's also a safety problem, and I think the record of disasters and the tragedies which have occurred off the coast of Maine and New England is an indication or a symbol of the economic problems that are being created by these low fish prices.

Senator COHEN. To which our Government says that they can't even afford to send a helicopter that's located in Maine because they can't afford the cost of saving those six or seven lives that were lost recently.

Mr. BRADLEY. That's correct.

It also inhibits private development in the processing sector. With low margins and low profitability and the need to deal at high volumes of fish, there's very little incentive for people in the processing sector to go out, purchase the kind of equipment they need to get into the new kinds of fisheries and new fisheries markets, or to undertake the kind of market development that's necessary.

Often when you begin these discussions between the private and the public sector, the response is, after all, why get involved, why spend the money? All we're doing is finding a new place for all that Canadian fish to go.

Another important effect of these low prices, which I don't think is generally understood, which I think is extremely significant, is the fact that the low cost or the low profitability involved in the fresh fish market and the low margins decrease the quality of the fish that comes in. There is absolutely no incentive on the part of either the harvester or the processor to purchase the equipment or implement the procedures that would result in a higher quality fish product on the market. The result is that there is no increase in consumer demand for the fresh fish product and there is no increased consumer willingness to pay for a product which is of such uniformly low quality as a result of the low prices and profits that can be made.

If these prices patterns that result from the low-priced, high-volume Canadian fish were the result of hard-nosed competition from Canadian fishermen, our fishermen would have no complaint.

In fact, when subsidies have been suggested for our own fishing fleet within the State of Maine, whether in the form of disaster assistance or any other way, the fishermen in our organization have resisted that. We don't believe in subsidized activity. We believe in making it on our own.

In fact though, the price pattern results not from hard-nosed Canadian competition. Canadian fishermen are good fishermen; they're good people. We fish side by side with them. We like them. But they are able to bring fish into direct competition with us in our markets because of the incredible dimension of the comprehensive subsidy program of the Canadian Government.

In my testimony, I have provided some examples of that. Subsequent to writing my testimony, I have been provided with a document which is a portion of something which is referred to as the Shaffer report. It was my understanding that it was prepared for the Department of Fisheries and Oceans in Canada and was released on September 22, 1981, by G. C. Vernon, Assistant Deputy Administrator of Fisheries in Economic Development and Marketing. It appears to be a justification of the Canadian Fisheries Development Programs for the Canadian Government. I am not going to read all the programs, but I am going to specify a few of them to show the dramatic impact they would have on the fishermen in Canada.

The introduction to this section is that the Canadian Federal and Provincial Governments have been most active in offering aid and assistance to the fishing industry. Government assistance basically takes the form of direct financial assistance to participants in the industry—that is, the Canadian industry—investment in infrastructural improvements for the benefit of industry users and local communities, tax and related incentives, and direct involvement through corporations.

Then there's kind of an apology. It says:

> The following is a description and listing of the types of assistance made available to the industry, although it is not an exhaustive listing. It includes the multi-faceted scope of governments' involvement in the industry.

What follows is an index, in my copy, of one, two, three, four, five, six, seven, eight, nine pages of Government programs which are direct and indirect assistance to the Canadian fishermen. This is the first time I've seen a list that is as comprehensive as this. And I think the reason is because it has been prepared by the Canadian Government, not our own.

But as I go through it and I think about the problems that are facing us in Maine and the kinds of costs that the American fisherman incurs on his own out of his own capital creation, it puts in sharp contrast to the significance of the kind of help the Canadian Government provides to fishermen.

Fisheries Price Support Board—the purpose to protect fisherman against sharp declines in prices, while created by their own subsidy program—I mean they're subsidizing their subsidizies.

Newfoundland bait services—to insure adequate bait supply for inshore fishermen. In the United States our fishermen are responsible for those costs.

Canadian Salt Fish Co.—salt fish industry development. The salt fish industry development in Portland, Maine, this summer ran on hard times because of the kind of competition that's provided by this subsidy.

Inshore fishing gear—they're going to pay for the costs of gear. We shift gear in our fleet on a seasonal basis. We pay for those gear costs directly. How can we compete against Canadians when that gear cost is being defrayed by the Canadian Government?

A machinery program—to remit import duties on machinery not produced in Canada. Recently I had a case in my office of a fisherman who had a $4,000 extra import duty on his gear imposed because our Government didn't separate his doors and his rollers from the twine on which the tariff was 35 percent. There's no sensitivity to the plight of the person. The tariff should have gone on the twine. We protect that industry, the textile industry, in the United States. But doors are what weigh the most—and the rollers—are included under an "entirety" concept, in a tariff on the entire weight, causing an unexpected and impossible-to-meet $4,000 cost to this fisherman.

Here they remitted a per-pound subsidy to defray the cost of transportation of fish to the plant. In Maine our fishermen pay their own transportation costs. The Canadians have grants for icemaking and storage to provide sufficient icemaking capability.

Our association in the last year set up a fuel and ice facility in Portland Harbor to provide convenient and efficient ice and fuel facilities on the Portland waterfront. We were forced to go and borrow money at 18 percent, floating at 1 point above prime.

Aid to fishing associations—our association does a lot of important work. We don't get any financial assistance in doing that work from our Government.

Inshore fish handing systems—to improve the quality.

You can go on and on. There are hundreds of these programs.

Senator **Cohen**. Mr. Bradley, I have a copy of the so-called Shaffer report which I am going to enter into the record.[1] I think it offers rather dramatic and demonstrable evidence of the kind of programs that are available to Canadian fishermen.

In fact, I'm also going to enter into the record an unclassified document coming from our State Department.[2] And let me just read it to you. A 1981 official Provincial Commission report on the PEI Fishery stated that

> It appears, on the basis of the 1978 figures, total government assistance, including administration and unemployment insurance payments, amounted to at least half the value of landings of all types of fish. If fishermen and processors were to bear the full costs of those services, they would not be able to catch or to process fish.

That's a statement on the part of the Canadian Government concerning their subsidy program. It's also reported in an unclassified document from our own State Department, which will become a part of the record.

Mr. **Bradley**. Thank you.

The problem has been obvious to us. It's a problem which is—for many of the reasons that the Potato Council explained to you, their problem is difficult to come to grips with.

We have even more limited resources as an organization. We have tried to address this issue and have found it impossible. Consequently, one of the first suggestions I would make would be in an attempt to approach this problem, to undertake a serious comprehensive effort to understand the exact impact of the Canadian subsidy program on the profitability of the U.S. fishermen, its effect on the market prices which all fishermen in New England are paid in New England fresh fish market.

---

[1] Excerpt appears on p. 322. Full report retained in subcommittee files.
[2] See p. 500.

That job, although we could contribute and would participate in providing information, is well beyond any particular fisherman's organization's resources to take on.

A second recommendation would be to neutralize the impact of this countervailing program. The countervailing duty route is one way that fishermen and fishermen's organizations in the past have tried to do this, with about the same kind of results as Mrs. Kelley described for the potato growers.

Our association did not directly undertake that. It was done by the Point Judith Fishermen's Co-op and the National Association of Fishermen, of which we are a member. We participated in that, and we experienced vicariously the frustrations that they have experienced directly going through that process.

On three separate occasions in 1977, we submitted a countervailing duty petition. On three separate occasions, we found the Federal Government unwilling to fully credit or value the effect of those subsidy programs, finding, although there were subsidies in fact, they were having a much smaller impact than our economists had indicated they were having.

Finally, having found an impact, having been willing to assess a countervailing duty, they found, through the discretionary provisions of the act, the Treasury Department waiving those subsidies in each case.

In one instance—to address something else you mentioned, the duty was waived, in fact, because the subsidy program for vessel construction had been terminated. That waiver shows the ignorance of our Government and its insensitivity to what the situation is. If that subsidy created a vessel, that vessel did not sink when that subsidy program was terminated, it is still out there. It is still fishing against Mr. Salisbury's effort, and its product is still competing in the marketplace at lower interest and with lower principal payments to be made. Mr. Salisbury can't compete successfully. He can't survive if it goes on much longer.

A third recommendation I'm going to make, and I hesitate to make it, but I think it's important for someone in a fishermen's association to say it. We are not statesmen, we have no responsibility to that. Most of the problem, I believe—I think we have the laws to take on this issue. If we had people administering those laws and those programs who were sensitive to our objectives and goals and sensitive to the small businesses that are affected by these Canadian subsidies, my recommendation is to address those people through hearings such as these, through continuing political oversight of their activities; and if they don't respond, to do something about it.

Over and over and over again, we are frustrated in management in countervailing duties, getting our projects and our goals achieved by individuals who are buried in the bureaucracy. We can't move them, because these issues are beneath political notice. Raise them to political notice and affect their attitudes by addressing them personally.

My last recommendation is one that relates to the volume of Canadian fish and its quality. If we can't address the subsidies directly, then address the flow of Canadian fish as it comes in. Part of the problem is that it is dumped in large volume when the prices are high. It makes the prices unpredictable and volatile. It makes it impossible for our fishermen to plan, leven that flow as it comes in.

Finally, impose quality restrictions on the Canadian fishing industry so that when their fish comes in, it isn't low priced and bad, it's low priced and good, so that at least as it comes in, it can increase the demand for fish in New England markets and not depress it.

The irony of the Canadian subsidy programs is that they victimize the Canadian fishermen as well as our own, in that every adverse impact that is felt by the New England fishermen is also felt to at least a greater degree by the Canadian fishermen. The worse it gets as a result of Canadian subsidy programs, the more need for their subsidized welfare program.

We should address that subsidy program at its heart and start on the road to development of a quality New England fishing industry.

Thank you for the opportunity to testify.

Senator COHEN. Thank you very much, Mr. Bradley.

Mr. Salisbury, I'd like to hear from you before we go to questions.

Mr. SALISBURY. Thank you, Senator Cohen.

My name is Jim Salisbury. I'm a fisherman. I also buy fish. I am a member of the board of directors of the Fishermen's Cooperative Association, and I'm on the New England Regional Fisheries Management Council.

I have written testimony, and I'd just like to summarize those remarks and express a little more personally our concern with this problem.

Since the 200-mile-limit bill—we all call it that—there's been a rapid growth in the harvesting capability of our fleet. We've invested heavily in boats, equipment. There have been more boats.

There's been very heavy investment by the fishermen. There hasn't been as heavy an investment in the processing sector of the business for fairly natural reasons. The markets are slower to react, the fish have to be caught consistently before there's any great need for a larger volume of processing capability.

So, the result has been that at the present time there's a natural bottlenecking effect of the supply. We've been able to increase our supply, but the capability of processing it hasn't kept up with us as well.

The Canadian import situation only aggravates this. At times, seasonally, when fish volumes are high, Canadian fish volumes are high, too, and they bring them into this country. And it just aggravates the bottlenecking effect that we have. We have some controls on that situation when prices are low. We tend to stop fishing or go fishing for something else.

The scallop fishery these past few years has helped alleviate the low prices the boats have gotten for fish. A lot of them have gone scalloping.

The Canadian situation doesn't allow that. For one, they have a limited entry program. If you're a fisherman, you fish. You don't go scalloping. So, that keeps them producing fish, regardless of the market conditions.

And because of the subsidies, they can keep on fishing. Even if they don't make a profit, they can pay their bills.

So, it tends to allow the situation not to react to supply and demand, the way it's supposed to.

The Canadians have decided to do this as a less costly form of providing welfare to their Maritime Provinces and preserving the cultural background that they've always had. We can't help but envy that concern that their Government has for them.

But the problem is that it's less costly because we pay for it. We pay for their welfare system out of our gross income. Our own welfare system you pay out of your net income. It's a little easier to take.

The Canadians—we have no quarrel with the Canadian fishermen as fishermen. I fish right beside them, talk to them on the radio—you know, they're good fishermen, they're great people.

As Ed said, the Canadian fishermen are suffering, the same way we are. They're getting lower prices than we are, actually, for their fish. The companies don't necessarily, but only after it's imported, the companies do that.

But the fishermen are affected by this supply problem, just like we are. When they land a lot of fish, prices go down.

Senator COHEN. What you're saying is that the U.S. fishermen are subject to the pressures and the discipline of supply and demand when trying to market their product, and the Canadian fishermen are not subject to any kind of the restrictions or constrictions of the free market system, where supply and demand determines price and determines who stays in business and who goes out.

Mr. SALISBURY. That's right.

Senator COHEN. So what you have in essence is a sort of corporate welfare state for the Canadian fishermen, in direct competition with the free market enterprise of the U.S. fishermen.

Mr. SALISBURY. That's right.

When it comes down to push and shove, you know which one is going to go out, us. We're going to have to be affected by the supply-and-demand relationship. And it's free and open, and we want it that way, really. We want a free and open market, but there has to be something done about the influence that an unfree or subsidized industry will have on that market.

The fishermen see several remedies for this. Many get tossed around. You can go anywhere from a total ban on all foreign fish to countervailing duties or regular duties, tariffs on product, subsidize the U.S. fishermen, or regulate the flow of fish into this country. All those are things that have been tossed around as remedies.

A total ban I don't think is realistic to expect. There is a certain amount of evidence to the effect that at times we do need Canadian fish. Canadian fish has helped the industry in several ways. And a total ban does not really solve the problem.

Subsidizing the U.S. fisheries, we don't want that. It's tempting to say, you know, we'd like to be treated equally. But that's not the way.

Countervailing duties, we run into the same problems that Mrs. Kelley expressed. After you get all done with assessing the fact that industry was subsidized and you have some 30 different forms of subsidies that the Canadian fisherman gets, the Treasury Department allows as to how there's possibly 1.08 cents worth of difference in the price. And that was insignificant, so why bother?

If that were the difference, we wouldn't bother either. That wouldn't bother much. But I think it's clear, by the document that you brought in, that it isn't the difference. It's nice to see that somebody in there knows that it isn't the difference.

Duties, regular import duty, if it were large enough to have an effect on the flow of fish, may do something. It may start some relief.

There is a danger that duties would have a depressing effect on our own market conditions. And unless they were very large, I don't think they'd work very well.

The remedy that appears to me to offer the most hope is an actual restriction on the flow of fish, not necessarily over the total volume of fish brought in. That isn't completely the problem. The problem is the seasonal pulsing of the situation. And if you could regulate that flow so that it's steady, it then could be more easily absorbed in our market structure and affect us as fishermen less.

This problem partly comes because of our pricing systems, where we had our fish sold, prices are determined by an auction. The Canadian fish isn't offered on that auction. It's sold separately. But at the fish pier where the auction is, buyers all walk down to the auction at the end of the fish pier every morning. They have to go by all the Canadian trucks backed up, literally walk by them. And when you walk by seven or eight tractor-trailer loads of Canadian haddock waiting to be sold, you're not tempted to offer a very big price on an auction, when you know you're going to be buying that.

Senator COHEN. What's been the experience when you go to Boston, for example, and you try to market the catch?

Mr. SALISBURY. What's the experience?

Senator COHEN. Right. You just described that you've got six truckloads of Canadian fish there.

Mr. SALISBURY. It's like going to Las Vegas. Some days you can do really well, and some days——

Senator COHEN. What happens when you have those six truckloads of fish stacked up, when you bring your catch in? What's the practical reality?

Mr. SALISBURY. My trucks go, and I often call the truckdriver in the morning. You get there about 4 or 5 in the morning. The Canadian trucks are there by then, if they're going to be there. I often call and ask how many Canadian trucks are there, just to find out what you can expect that day. When there's a lot of Canadian fish, you typically don't get a very good price. That's difficult to document when you say there has been injury to your industry. Well, the price in the auction was low. That wasn't the Canadian fish, that was fish they brought off an American boat. So they say, "Well, prices were low. We can't help that. The Treasury Department can't help that."

But you have to be there to know why the price is low. The guy walks buy. He knows he's going to buy that. Why would he want more?

Senator COHEN. That's a case where supply and demand works to hold down your prices, and you would have no objection to that, except that the competitor really has a decided advantage.

Mr. SALISBURY. Why is that fish there in the first place? The fish is there, because they can afford to go and, indeed, almost have to go. They can't go scalloping like we can. They can't do some other form of fishing to take off the pressure. They have to go fishing, and they can afford to go fishing. At times we can't.

So that fairly well summarizes my remarks. I just feel that any solution to the problem will have to be addressed at regulating the flow of fish. Listening to the remarks of the potato industry, it almost perfectly mirrors our situation. It just leaves you with the feeling that if something isn't done about this soon, the only thing we're going to have left is the ingredients of a good chowder.

I think that it's time our Government, not consider subsidizing or giving direct forms of relief to us, but at least take the situation seriously and do what it's supposed to do, to help protect it.

Senator COHEN. Mr. Salisbury, thank you very much. I'd like to say that there are members of the administration here. I notice from time to time they may shake their heads in disagreement with a statement from you or Mr. Bradley, or perhaps even the prior witnesses. But let me say to those who are here today, that you, in particular, Mr. Salisbury, have presented a very balanced, calm, and philosophical statement. I would invite the same people who are here in this room today to come to a meeting of the fishermen or lobstermen up in Maine or Massachusetts sometime, who find their livelihood threatened to be extinguished. And you will not find the same calm, balanced philosophical statements as you've found today.

Frankly, you should come armed with a SWAT team if you want to walk into one of these meetings and find out what fishermen think. They find themselves at a distinct disadvantage, through no fault of their own, with an indifferent and uncaring government.

I was particularly intrigued, Mr. Bradley, when you talked about the fact that we had to have an attitudinal change. I will just tell you my own experience, since I've come to Congress back in 1972, when we filed legislation to declare lobster to be a creature of the Continental Shelf. The legislation was actually opposed by the administration at that time, and the fear was that if we declared lobster to be a creature of our shelf and under the protection of U.S. laws, so it couldn't be fished commercially by other nations, then other nations would retaliate against us. And, therefore, they opposed it.

Of course, I think the Soviet Union at that point had just declared scallops to be a creature of their shelf. The question was, has the United States retaliated against the Soviet Union for protecting their scallop industry? The answer was "No." Do you anticipate any nation taking retaliatory action against the Soviet Union? The answer was "No." Then we had a similar experience in conjunction with the 200-mile limit. Again, the State Department and our administration came in and actively opposed the creation of a 200-mile limit that was to protect the species that were being decimated by overfishing at that time.

Ironically enough, at that time one of the South American countries had not only just declared a 200-mile limit, but our State Department had come in looking for the U.S. Congress to appropriate some $5 million to reimburse that South American government for the confiscation and arrest and seizure of American fishing boats violating their 200-mile limit. When the question was asked, "Why do you oppose the 200-mile limit for the United States and yet ask for reimbursement for another country that has a 200-mile limit?" they said, "We're not recognizing the 200-mile limit, but simply a country's right to protect a species; namely, shrimp, up to a 200-mile limit."

I said at that time I found the distinction a bit too metaphysical for me to grasp. It was that sort of inconsistency and indifference to the plight of fishermen which I believe led directly to the overwhelming support for the creation of a 200-mile limit in our country.

So I agree with you, Mr. Bradley, it's part of an attitudinal problem, and it has been one of indifference, I think, to the nature of the problem faced by the New England fishermen. This is not subject to any partisan interpretation, I might add. It's happened in Republican administrations. It's happened in Democratic administrations. Most clearly, the last example we had was the two treaties that were negotiated and signed by the President of the past administration, which I think was clearly one of the most classic examples of indifference to the nature of the problems faced by our fishermen. Fortunately, President Reagan withdrew at least one-half of that particular treaty.

Mr. Bradley, I'd like to come back to your statement. I think you indicated the laws that we have now are adequate. If they are adequate, tell me, how would you go about establishing and documenting the effect of imports on prices under existing laws?

Mr. BRADLEY. That's why my first recommendation was a serious study of the problem. I think that if there were—I guess I have to feel at this point—a congressionally directed task force which involved the industry, which involved governmental agencies, which involved the Congress, that a true description of this situation, both injury and subsidy, would defy waiver or discretionary disclaimer of the effect of the subsidies.

So I think the way to go about it, given what I know to be our resources in our association and in New England, for instance, since the action on the treaty, a number of fishermen's organizations have been actively considering going forward with another countervailing duty position much as Mrs. Kelley stated. The estimated costs of doing that effectively are somewhere in the range of $100,000 to $200,000. The problems with collecting statistics with respect to injury are complicated by the way the industry works, by the way records are kept, by the fact that the standards don't coincide with the way the industry practices. Our legal standards don't coincide with it.

So it's nearly an impossible task, unless somebody comes to grips with it. And within government, there is a willingness to take seriously and sympathetically the claim for the injury that comes forward. Without it, there'll be plenty of reasons to exercise the discretion which exists within those laws, in a manner adverse to the industry. And the agencies have exhibited on a continuous basis, the willingness to exercise that discretion in favor of free trade in relations with Canada and against the economic interests of our industry.

So how do you do it? I think you start with a serious study of what the problem is, so that when it comes time to exercise that discretion, it can't be exercised arbitrarily.

Senator **Cohen**. When you say we have adequate statutory laws on the books today, the question I have in mind is, "Give me an example of how you prevailed in the three countervailing duty positions filed in the past?" The answer is, you haven't.

Mr. **Bradley**. You can't.

Senator **Cohen**. You cannot. So they aren't, in fact, adequate.

Mr. **Bradley**. Theoretically, they're adequate. But in terms—that's why I say attitudinal changes are so important. The implementation and administration of those laws makes success impossible for an industry like our own.

Senator **Cohen**. In essence, what I've seen so far to date, and I don't think I'm being overly narrow in my view, is that the remedies that are currently available are costly, and they're complex. They're time consuming, and they're virtually illusory.

Would you disagree with that?

Mr. **Bradley**. That's accurate.

Senator **Cohen**. What is most ironic to me is that of the six witnesses who have appeared so far, and we'll hear from the administration shortly, almost all of the information that has been produced has come from Canadian sources.

Mr. **Bradley**. Can I say something on that, because we had the Trade Commission send a representative up there. They said, "Well, you failed on countervailing duty. Why don't you do an injury petition?"

What they did was send a very well-meaning and very intelligent young man who had absolutely no background in the fishing industry and came and found that he couldn't develop the information. It's an impossible thing to do, unless our Government goes out and actively develops that information through its sources with the Canadian Government. It hasn't been done internally. We're forced to rely on what the Canadians say about what they do. I think if it hadn't been a need to justify their own programs, we wouldn't have the kind of document that's present in the Shaffer report.

Senator **Cohen**. Mr. Kuehne, you've been very patient. I'd like to hear some testimony from you now.

Mr. **Kuehne**. Thank you, Senator.

I want to first congratulate you on correctly pronouncing my name. That's a rare thing, when I testify before a hearing.

I'm M. J. Kuehne, executive vice president of Northwest Independent Forest Manufacturers. We're an association of small- and medium-sized sawmills, plywood plants, veneer plants, and shake and shingle mills in Washington State.

I appreciate this opportunity to come before this committee and explain some of the problems that we have which sound very similar to those in other parts of the country. Let me say that I'll attempt to summarize my remarks here and hope that the entire statement will be printed in the record.

Senator **Cohen**. It will be included, Mr. Kuehne.

Mr. **Kuehne**. I'll start by describing to you the problems that we have with imported Canadian lumber, some of the remedies that I'll suggest and our difficulty in working on those remedies and some alternative solutions for you to consider.

I think it's widely understood in this country that we have a very poor housing market. It isn't too widely understood that in addition to the very poor housing market, we have a greatly expanded Canadian lumber import situation, which makes a bad market into an unprecedented disaster.

In 1970 and in 1975, we had similar poor housing markets. And lumber consumption in those years in the United States was very similar to the level that it was in 1980 and 1981. That is approximately 30 to 31 billion board feet total U.S. lumber consumption. What makes this situation unique here in 1980 and 1981, is that the Canadians are selling an additional 4 billion board feet in the U.S. market in 1980 and 1981, compared to what they were selling in the previous downturn of 1975. That's an additional 13 percent of total lumber consumption in the United States.

Logging and processing of 4 billion board feet of lumber and products takes approximately 40,000 man-years of employment. So we're talking about 40,000 jobs. In Washington State alone, that's around 4,500 jobs just in Washington State in logging and milling.

Now for every direct job, you're talking about an additional 2 to 2½ indirect jobs in service, supply, and trade. So we are talking about a very large problem. We are part of that problem. Other States in the Northwest—Oregon, Idaho, Montana—have similar problems.

Unemployment in the forest products industry in our State this past year has hovered around 20 percent and in some heavily dependent communities, unemployment is reaching 50 percent in real terms at the current time. About one-third of our industry now is completely closed down, one-third is working curtailed shifts, and only about one-third is operating anywhere near normal.

The typical scenario over the past 20 months has been you operate for a couple of weeks at near normal; you lay off for 3 or 4 weeks until you get rid of your inventory; you come back on and maybe work 3- or 4-day weeks, 7-hour days, and then lay off for another few weeks. It's a limp-along situation, where you try to hang on. And I suggest to you that we won't be able to hang on much longer. At least many of the independents won't. We haven't had a member who's turned a profit this year. And many of them in the last 2 years have lost close to the total asset value of their company. In some cases, they accumulated that value over a decade or more of hard work.

Now why have the Canadians been able to increase in our markets during these poor market conditions? Well, I'm most familiar with British Columbia, and most of the analysis that I've been able to do so far is connected with the conditions in British Columbia compared with the conditions in the Pacific Northwest, which is a similar forest area. Over 90 percent of the timber in British Columbia is owned by the Province, the lands and the timber are owned by the Province. Now that timber has been allocated to mills on a noncompetitive basis at far below the true value of that timber.

Again, we point to studies done by people in Canada, in this case, in British Columbia. Prof. David Haley, in 1980, published a study, and the conclusion of that study was that the prices paid for public timber in Oregon and Washington were 8½ times the amount paid in British Columbia.[1]

I'll read the conclusion of his study: "There is little doubt that the principal reason for higher stumpage"—and stumpage is the technical term for standing timber—"in the Pacific Northwest is that all public agencies involved in timber encourage competitive bidding for standing timber, whereas in British Columbia competitive sales of public timber have been virtually eliminated."

He went on to say, "There's good reason to believe that if public timber in British Columbia was competitively sold, in many cases it would be bid well above the appraised level, and the Crown revenues would be substantially increased."

Senator COHEN. In other words, stumpage in the United States that's federally owned has to be sold at prevailing market prices?

Mr. KUEHNE. Yes, and in competitive auction sales, the Government, in the case of national forest timber, sets a minimum price at an appraised basis and then everybody who's interested in that timber has to competitively bid on it from there.

Now I have taken the Haley study and analyzed it and came to the same conclusions that Professor Haley did and updated it to include data from 1979 and 1980. And, in fact, the differences that he found of 8.5 times, which were correct for the period, have now increased to 12-to-1. That is, we're paying now about 12 times as much.

Now considering the fact that the price of the standing timber is about one-third of the total cost of manufacturing FOB mill, you can see what a tremendous competitive advantage that this allocation subsidy provides the British Columbia sawmills. It's one that cannot be overcome by us becoming more efficient or better managers or that sort of thing. There's just no way it can be done.

In addition, in some cases, they also profit by lower energy costs, cheaper transcontinental rail costs, and cheaper waterborne shipping to the east coast. In this case, we hit ourselves with the Jones Act, which provides us a competitive disadvantage.

We are becoming, if you will, residual producers in our own market. If this condition is allowed to continue, we will operate only at the peaks of the cycle at anywhere near normal production levels on a boom-and-bust basis. Our local economy, the economy of our State and other forest product States in a similar situation will be subject to great disarray as we are in Washington State currently.

I'd like to get at some of the remedies that have been suggested—a number of them have been named by previous witnesses here today. I would also like to describe some of the problems we're facing with those remedies.

First, we're a small segment of a very large industry. Many of the major producers in the industry are very large corporations which own land in the United States and also buy timber in Canada. They have mills that process Canadian or British Columbian provincial timber. Now it's certainly to their advantage to get high prices for their standing timber in the United States, which they own in fee, and to buy Canadian timber to use in processing in their mills in Canada at a low price. So we are not a united industry in this effort.

---

[1] See p. 556.

Senator COHEN. Can I rephrase that? In other words, as I understand it, Canada has some very high tariff rates on lumber coming into their country. Is that correct?

Mr. KUEHNE. No. The problem is, they don't allow the export of logs from their country from either public or private lands. But the real problem is with us getting the support of the major segment of the forest industry in this country, in that the industry is divided by the fact that a lot of the companies who operate, the major companies, have mills in British Columbia and profit by the lower prices in Canada.

Senator COHEN. So whether or not they have any kind of restrictions upon our importing into their country, what you have is a policy of the larger companies to invest in Canadian property or stumpage and benefit from that lower price?

Mr. KUEHNE. Yes. What I'm saying is, that causes us difficulties in pursuing this issue with identification of the industry, because we are a small part of a very big industry, many of which fight this action of the larger companies to invest in Canadian property or stumpage prices in Canada and high stumpage prices in the United States.

Senator COHEN. How would you, as a layman familiar with the problems, go about presenting a petition for relief? It seems to me, if I can interrupt you, that we admit we've got high interest rates here as a problem; we've got a slump in housing starts; and to sustain a countervailing duty action, you've got to show the injury is by reason of imports. Now how would you, as a petitioner, go about establishing or identifying yourself as an industry?

Mr. KUEHNE. That is a difficult problem. Our difficulty is in communicating with other small businesses and other segments of the industry that are concerned in other States. As a small association in the State of Washington we're not organized really to do that. And the major associations that represent the forest products industry in this country, you see, are compromised by this other position.

We still think that we can do that, but I'm saying it's very difficult to do. We don't have all of the resources that are made available to the major associations in these kinds of efforts.

Senator COHEN. But what do you do when Commerce or the ITC comes in and says, "Well, your problem, Mr. Kuehne, is that we've got terribly high interest rates in the United States, and we're trying to bring those down. And we've got some housing slumps here. And yeah, there are some imports, but that's not your problem. That's our problem. That's our problem on this side, and not a result of the Canadian imports?"

How do you go about presenting causal evidence of that kind?

Mr. KUEHNE. Well, we haven't done it yet, so I can't be definitive on that. I think that the thing we explain to them is that housing has always been a cyclic industry, up and down with interest rates, and therefore our markets have. But here we have the double-whammy, the additional thing of vastly increasing imports. That's on top of the other.

At least half of the problem that we have today is that we have lost 13 percent of our market share to imports between the bottom of this cycle and the one in the previous bottom in 1975.

Senator COHEN. So in about a 6-year period, you've lost 13 percent of the national market?

Mr. KUEHNE. Yes.

Senator COHEN. That's a doctrine that doesn't apply yet, and I'm going to suggest this to some of the witnesses who come after. It's called *res ipsa loquitur*. It means the thing speaks for itself. Henry David Thoreau said, "Some circumstantial evidence is very strong, as when you find a trout in the milk." That's the sort of situation we find here. You as a layman, or Mr. Bradley as an attorney, or Mr. Salisbury as a fisherman, or Mrs. Kelley as a representative of the potato industry are in a very difficult position to present the kind of economic expertise and evidentiary material that would be required under our existing laws to sustain this kind of statutory remedy.

At some point in time, we've at least got to adopt "the thing speaks for itself" when you show, for example, that the Canadians have a 12 to 1 advantage in the price of stumpage. That, in itself, ought to be a very significant factor to take into account. It should not simply leave you with the burden of somehow coming up with some professional economists in the Northwest to try and select out those factors which, in fact, are contributing to the decline in the market of this country.

Mr. KUEHNE. We think that in talking to some lawyers in this town—we haven't gone ahead in pursuing it vigorously yet, but we're in the stage of deciding what actions to take—one thing that would be helpful would be for the Senate or the Senate Finance Committee, if you will, to request what we understand is a section 332, an investigation by the International Trade Commission of this injury problem. That would substantially, at least, reduce our costs, regardless of what remedy be pursued, be it a section 201 or a countervailing duty or even an antidumping action.

Senator COHEN. In other words, that section requires either the House Ways and Means Committee, the Senate Finance Committee, or the President to request the ITC to conduct the investigation, putting the burden on the Government.

Mr. KUEHNE. Yes. We think that that could be very helpful.

Senator COHEN. Is that the kind of congressional initiative, Mr. Bradley, you were advocating?

Mr. BRADLEY. Precisely.

Mr. KUEHNE. One other thing that I've thought about here as I prepared for this hearing was that, well, you've got a segment of an industry such as us—and maybe the overall industry isn't that anxious because of Canadian mills and other investments or whatever—maybe you could provide an offsetting subsidy for those who didn't profit from the other subsidies in the foreign country.

In our case, we purchase timber from the Federal Government. Maybe we could get a credit equal to that subsidy. It's something I'm not sure I want to recommend at this point, but I think it's worth exploring as an option.

Thank you, sir.

Senator COHEN. Thank you very much.

I think it's clear from the testimony of this panel that no one is seeking any sort of retaliatory action or punitive action against Canada. Rather, they are trying to seek some means of regulating the flow of imports coming into this country for a better balance and as much competition as can possibly be achieved, given the fact of two essentially different approaches to development.

You have a commitment on the part of this and past administrations to open or free trade, and you have a commitment on the part of the Canadian Government to subsidize and target the industries that it wants to promote and prevail. And the question is, how do you reconcile those two essentially different approaches to generating gross national product in various industries in the country?

And I think it's to the credit of you and the other witnesses who appeared here today that you did not come forward seeking punitive, retaliatory, or any other extraordinary kinds of remedies, but rather sought some sort of attitudinal change to sensitize this Congress, this administration, and future administrations to the need to recognize the difference in treatment.

It's one thing to say that we're committed to free enterprise, that we want to run the 100-yard dash. If we're going to run the 100-yard dash, we can't give our opponent a 40-yard lead and expect to prevail. That's essentially what we're trying to deal with here today.

I thank all of you for coming forward, and I hope you can stay and listen to the balance of the testimony which will be coming from the Government witnesses to follow.

Thank you very much.

[The prepared statements of Mr. Bradley, Mr. Salisbury, and Mr. Kuehne, with attachments, follow:]

PREPARED STATEMENT OF EDWARD F. BRADLEY, JR.

Mr. Chairman, members of the Committee, thank you for the opportunity to discuss the effect of Canadian fish imports. In our view no other factor has a more pervasive impact on the economic success of the New England fishing industry or has more potential for affecting its direction for both good and evil.

I am the lawyer for Maine Fishermen's Cooperative Association. The Association consists primarily of owner-operated groundfish fleet. There are over 200 individuals and approximately 150 vessels home ported from Kittery to Eastport. If consolidated, the investment of the members in vessels and equipment would be in excess of 10 million dollars. The Association is run by a Board of Directors, all of whom are full-time fishermen who represent different geographic areas along the Maine coast.

We are primarily a representative organization. We identify and discuss issues, consolidate views, seek consensus within the industry, and then work for acceptance of our position. For the past five years our Association has participated in the dialogue regarding most of the major issues which have faced the New England fishing industry. We are not, however, a solely representative association. We believe strongly that the independent owner-operated vessels we represent are a vital and necessary element of the ever-changing economic mixture of the New England fishing industry. We recognize the fierce independence which characterizes the harvesting sector is at once a strength and a weakness. Consequently our Association attempts to identify and develop, where appropriate, cooperative economic activities which will benefit all fishermen without requiring a sacrifice of independence or the incentive which results from it. Most recently we organized, capitalized and now manage an ice and fuel facility in Portland. In addition our Directors and members have been instrumental in developing and managing fishermen owned and operated processing facilities in Boothbay Harbor and Vinalhaven.

As the Association carries out its work it is faced at every turn with the spectre of Canadian fresh fish imports. Almost every fisheries' management issue has a Canadian component to it. Groundfish, herring, scallops, redfish are all species of interest to both U.S. and Canadian fishermen. They are species of primary importance to the fishermen I represent. These fishermen fish side by side with Canadians in the disputed area and occasionally at the Canadian maritime boundary. Understandably U.S. and Canadian governments seek joint approaches to problems which affect stocks which fishermen of both countries harvest. Often our government's concessions to the Canadian system of management put us at an economic disadvantage.

Even more important than the Canadian influence on U.S. fisheries' management is Canadian impact on U.S. fresh fish markets. Today, even as I talk, thousands of pounds of fresh Canadian fish is being imported into U.S. markets. While it is difficult to come up with precise figures, it is clear that the volume of Canadian fish which is sold on U.S. markets far exceeds that caught by our fishermen. Ironically, a larger percent of the Canadian fish exports are trucked through Maine ports and first enter the U.S. sale and distribution system on Maine roads. Because the volume of Canadian fish is high relative to that produced here and because the costs of harvesting and processing that fish is low compared to U.S. fish, the effect of Canadian fish upon fresh fish prices is dramatic. Maine fishermen who are nearly as far from the Boston and New York markets which determine the price of fresh fish are most seriously affected. The critical fact in understanding the impact of Canadian imports on U.S. fish prices is that they arrive at market in large volumes and at low prices relative to the fish harvested by New England fishermen. Why those volumes of imported Canadian fish are large and low-priced are interrelated issues which are the heart of our concern with respect to Canadian fish.

As an introduction to the issues of volume and price of Canadian fish, you must understand the difference between the way the two governments approach fisheries development. In

Canada the fishing activity is the subject of a great deal of social and economic planning. Fishing is the employment base of the Atlantic Maritimes. The Atlantic Maritimes, particularly Newfoundland, have serious economic problems and pose significant threats to the fragile federalism which exists in Canada. In response to the economic and political concerns posed by the Atlantic Maritimes, the Ottawa government provides enormous economic supports for the fishing industry in the form of direct and indirect subsidies. To protect its economic and political interests in that investment, Ottawa participates directly in the economic planning for the development of the fishing industry. The extent of federal planning effort for the fishing industry, particularly through regulation of effort and resource allocation, is a source of irritation for Canadian fishermen and provincial governments alike, but it is accepted by them as a necessary price for the economic assistance they receive. The objective of that economic planning is to make the Canadian the world's number one fishing fleet and the strategy, the only practical one available, is to occupy an ever-increasing proportion of the nearby U.S. market for fresh and frozen fish.

To achieve its goal the Canadian government coordinates its authority over fisheries management and federal subsidies. Rhetoric about the National concern for the fish stocks most frequently conceals an effort by Ottawa to pressure the government in Washington to cap the effort of U.S. fishermen to enable

Canadian fish exports to obtain a stronger hold on the U.S. market. Where it serves their economic purposes, Canadian officials loose their fleets to exert unrestricted effort on stocks they have previously agreed were vulnerable -- almost always, they say, to teach U.S. fishermen a lesson. The lesson is clear. The Canadians view the competition for U.S. markets as critical to the success of their political, social and economic strategy to maintain the economy and support of the Maritimes and are prepared to use any resource at their disposal to accomplish their goal.

To date the primary resources utilized to implement the strategy to dominate U.S. markets has been the subsidy. This subsidy has taken many forms, many of which are commonly acknowledged. The Groundfish Temporary Assistance Program paid fishermen and processors alike for fish landed and exported to the U.S., the Vessel Assistance Program provided grants to fishermen for the construction of vessels, the government provides low cost insurance, grants for exploratory fishing, purchases fish to maintain price, provides loan guarantees for equipment and gear, rebates tax on fishing vessel fuel and tailors its unemployment insurance program to the particular circumstances of the fishing fleet. It has also been acknowledged that the Canadian government has provided fuel subsidies. When all these forms of assistance are considered in conjunction with some of the disadvantages experienced by U.S. fisherman, including a currency exchange rate and high tariffs on essential gear like nets and doors, an appreciation for the essential unfairness of subsidies is easy to come by.

The effect of all this government support is a significant price advantage for Canadian fish in the U.S. market. Because the cost of harvesting and producing fresh and frozen fish product for the U.S. market is kept artificially low by Canadian government assistance to their industry, the price of Canadian fish is much lower than it could otherwise be.

The most obvious effect of low Canadian fish prices is that the general market price for all fish sold in the Boston and New York markets is lower. Because the prices paid in those markets serve as a guide for the price paid in other New England ports, Canadian fish imports lower the price everywhere else as well.

Less obviously, these subsidies have directly and artificially increased the volume of Canadian fish imports which can be imported into the U.S. during the present time period. Even though much of the support went to vessel construction several years ago, its effect is still being felt as these government assisted vessels continue to produce. It is not enough to appreciate that the price and volume of imported Canadian fish is hurting individual U.S. fishermen. You must also appreciate how Canadian fish imports inhibit the development of the entire New England fishing industry. To understand what I am about to say, you must realize that the independent harvester and small processor must attempt growth in the shadow of a government which does not consider the development of the industry a primary economic or social goal. U.S. government representatives know little about the private business plans and needs of the New England fishing fleet and in fact are concerned about quite different issues. The Commerce Department is more concerned about fish stocks and their well-being than fishermen and their needs. The State Department seems even less concerned about the industry and appears more sensitive to Canadian goals and objectives than those of the New England economy.. Unlike their Canadian competitors, our fishermen must develop their industry in the face of indifference and at times outright interference from the policies of our government. It is in this context that Canadian subsidies have been able to so completely inhibit development of our industry.

I have already indicated my belief that the low-priced, high volume Canadian fish imports have prevented the New England fishing industry from developing to its full potential. Some of the reasons for this belief are stated below:

1. Low prices keep U.S. harvesters in a vulnerable position, a little ahead or way behind, but rarely in a position to significantly succeed.

2. High volume of Canadian fish exaggerates the impact of the low prices. Since heavy Canadian importation often coincides

with scarcity in U.S. markets, the effect is to deprive the U.S. fishermen of their access to high price markets even when the conditions prevailing regionally would justify them. The result is that any attainment of high prices is short-lived, and U.S. fishermen are victimized by dramatic fluctuations in the market price for their product.

3. Low price and high volume of the subsidized Canadian groundfish have created a market system which handles large volumes of fish at little profit. In this kind of market, the participant takes everything out and puts very little back in. Because profits don't justify significant new investment, most of the industry is carrying on as inefficiently as it did fifty years ago and has little prospect for significant growth.

4. The low margin situation described in Paragraph 3 also has an adverse effect on the quality of fish. Low margins provide little incentive for either harvester or processor to produce high quality fish products. As a result the public has a low opinion of the fish produced, and consumer demand cannot keep pace with the capacity of the industry to harvest.

5. Low price Canadian frozen fish has kept many small processors and harvesters from developing freezing capability to absorb the excess fish which may exist during particular periods of the year. The result is that most of the industry is forced to sell all its fish fresh and vulnerability of the U.S. industry to the artificially low-priced Canadian imports

are maintained.

While there are other examples of the adverse effect of low-priced Canadian fish on our industry, others will probably discuss them. I hope by now to have convinced you that the subsidies are the source of our problem. Unfortunately, the solution to the problem is difficult to conceive. Quite candidly, the issue of Canadian fish imports is too large for an organization of our resources to address meaningfully. The most obvious efforts have already been attempted. Countervailing duty petitions, submitted on behalf of the National Federation of Fishermen and the Point Judith Cooperative in 1977, raised all the specific concerns I have raised in my remarks about Canadian subsidy. In response to a petition on April 13, 1977, the Treasury Department found that Canada was subsidizing, but waived the countervailing duties which would have been justified. Subsequently, another petition was filed. Again subsidies were confirmed and duties waived. In December of 1977, a third petition was filed and again subsidies were found and waived. While the major burden for preparing those petitions was assumed by Point Judith, our Association supported them through our membership in N.F.F. Whatever the justification, the lesson of those petitions is clear. The policy of the U.S. federal government is stacked against any efforts. Even when the showing is made, the end result is a waiver. The petition route should bring relief, but it does not. Federal concern for free trade, for U.S. - Canadian relations and lack of concern and appreciation for the resource-based economy of the New England region have combined to frustrate the intent of countervailing duty legislation and to sap the resolve of the industry to pursue these remedies. Recently our Association has been asked to contribute, in conjunction with other fishermen's groups, to another countervailing duty petition drive, but frankly I do not believe it could succeed. The federal government would not allow it to.

Given the previous federal response to our pleas for relief from Canadian subsidy, I believe the solution to the problem rests with a change in attitude in Washington and Ottawa. These governments must recognize and address the issue of market interrelationships in dealing with Canadian subsidies. The origin of the necessary attitudinal change which will be required of the executive agencies must in this case come from the legislative branch. Just as the Senate told the executive agencies that it would not stand for a give-away of U.S. fishermen's interests when it refused to ratify the proposed U.S. - Canadian agreement, so now must the Senate tell the executive branoh it will not stand for a give-away of the interests of U.S. fishermen in U.S. markets.

The first place to start this would be by conducting a thorough investigation of the Canadian subsidy program and its impact. In our view, the executive agencies have studiously avoided any serious attempt to evaluate the full impact of the Canadian subsidy program on the New England fishing industry. These agencies should be directed to develop this information in consultation with the New England fishing industry and report its full findings. At the present time the information regarding the extent and effect of the Canadian subsidies program is incomplete. If its full impact were appreciated, it would be impossible for even our government to ignore. At the same time, agency attitudes should be addressed where they originate, with agency personnel themselves. Employees who, through past statements and actions, have indicated their lack of sympathy for the plight of New England fishing industry should be replaced and transferred to new responsibilities, where their attitudes will cause no further harm.

Finally, an attempt must be made to develop means by which the destructive impact of Canadian fish can be modified. While I do not think any total solution can be found unless subsidies are neutralized by countervailing duties, I believe temporary relief can be obtained by regulating the flow of Canadian fish into our fresh fish market. If import volumes were regulated to prevent the dumping of huge quantities of Canadian fish on a sporadic basis into U.S. markets, the substantial benefits could in fact be shared by the Canadians. The final irony of this message is that the Canadian fisherman is also a victim of the marketplace his government's subsidies create. Although survival for some Canadian fishermen depends upon government subsidy, these same subsidies inhibit the success of many more. From a bilateral perspective, the positive side of every effort which will be made to stem the impact of Canadian subsidy is that each success will positively affect the Canadian fishermen just as directly as it will our own.

PREPARED STATEMENT OF JAMES SALISBURY

Honorable Chairman and members of the Senate Governmental Affairs Subcommittee on Oversight of Government Management:

I am James Salisbury from Milbridge, Maine. I am a member of the New England Fisheries Management Council, and serve on the Board of Directors of the Maine Fisherman's Co-operative Association. I own and operate Petit Manan Fisheries, a fish wholesale company. I am a full time fisherman.

Thank you for the opportunity to explain the New England fishing industry's situation and to express our concerns and frustrations with the problems Canadian imports have imposed on our industry.

The New England fishing industry is composed of two independent and yet completely interdependent segments: the harvesting sector; and the processing and marketing sector. These two sectors are for the most part different individuals or companies operating in a mutually dependent relationship.

The Fisheries Conservation and Management Act of 1976 can be seen as the focal point of a continuously changing industry. In the last five years we have seen a dramatic change in the financial condition of the harvesting sector. Before the advent of the 200 mile limit, the New England fishing fleet was at its low ebb. The fleet was old, the profits low, and the future dim. With the promise of increased stocks and rising fish prices, the harvesting sector made very large and rapid investments in the harvesting capability, especially in the scallop and groundfish segments of the industry. With the actual increase in landings, especially of cod in 1978, haddock in 1979-80, and scallops in 1978-80, and the rise in fish prices, due in part to inflation, the apparent success of the fleet stimulated an almost insatiable demand for new and bigger boats. Several factors must be considered to see that the increase in stocks and fish prices were not the signs of a completely healthy and flourishing industry.

While fish landings increased steadily, so did the cost of fuel, boats, gear, and interest rates. In fact, the cost of these staples of the fishing industry far exceeds the average inflation rate. What began as a good opportunity is now only marginally profitable, and has already become a disaster for some.

The processing sector, on its part, has reacted to the increase in supply with investment, but has reacted more slowly. The need for constantly larger volumes, the slowness of consumer demand to react to pricing and marketing strategies, and margins of profit that do not necessarily increase with supply, have all contributed to the delay in creating new facilities. This delay causes a bottleneck effect, and delays the return to the harvesting sector that their investment warrents.

To add to the confusion, governmental regulations, in the attempt to manage fish stocks with quotas, created short term gluts and droughts in the supply. This system is a disaster for the fishermen and processors alike. The fishermen must fish heavily until the quota is filled, thus getting low prices because of concentrated volumes. Once the quota is filled and effort reduced, the processors must turn to Canadian fish to supply the demand.

In order to mitigate the problem of inconsistency, imports, especially of Canadian products, have become an increasingly attractive alternative. While there is a real need in the processing sector for the added supply, the present use of Canadian fish causes real problems for the New England fisherman.

Over half of the fisheries products used in the U.S. are imported. Of these imports Canada supplies nearly ond half billion dollars worth, or over 90% of Canada's landings. These products are chiefly frozen blocks, frozen fillets and steaks, and fresh fish and shellfish. New England's fishermen primarily supply fish for the fresh fish market , and so are not in direct competition with Canadian blocks or frozen fillets. Frozen fillets and blocks affect us to the extent that they are used by consumers as substitutes for fresh fish. Or potentially, as fresh fish prices rise, Canada may divert its production from the frozen to the fresh fish market.

Canada is the only country that is logistically able to supply fresh fish to the New England market. It does so not only because of the potential for profit, but also as a result of a policy decision by the Canadian Government of promote and support the Maritime fisheries as a less costly alternative to welfare and the social and cultural losses that would result from the decline of their fisheries.

Canadian fish is produced under conditions that tend to remove it from the controls that supply and demand exert on our fish prices. Canadian fishermen are effectively subsidized by the government in the forms of: low interest loans for vessels and equipment; vessel construction grants; tax exemptions on fuel from federal and provincial governments; unemployment compensation even though self employed (provides up to two thirds of regular pay); direct production subsidies; and sales tax exemptions."

(4)

Several of the fisheries are regulated by limited entry systems that insure that they keep on producing even at very low or negative profit margins.

When prices are high and volumes low, Canada naturally tends to take advantage of the market and supplies large volumes, keeping down the peak prices. When prices are low and volumes high, Canada continues to supply fish and exert further downward trends in prices. At these times of high volume, even a few cents can make the difference between profit and loss for the year.

This situation is harmful, and not only to the fisherman. At some times Canadian fish fills a void and is thus a necessity to processors. However, at times of high volume it serves only to aggravate an already poor situation. At these times U.S. fishermen, processors, and Canadians all lose, but come to expect it as "the fish business."

There are several issues to take into consideration with regard to remedies. The principal of free trade is no doubt important to the U.S. not only as a philosophy, but as a matter of practicality. There are several cases in the fisheries where Canadian imports have helped both processors and harvestors.

The herring processing capabilitysurvived for several years principally due to the importation of Canadian fish. The last three years of abundant catches would have been disasterous if the processors hadn't survived.

Some of the options that have been discussed in the industry are: an outright ban on imports of fish; duties or countervailing duties on frozen blocks; whole fish, and shell fish; and controls on the quality and quantity of fish imported. Since the fisheries are a complex of rapidly changing issues and facts, no single answer will be sufficient

(5)

and no sufficient answer will be permanent. All of the above actions may have some merit at some time or other and should always be kept open for discussion.

At the present time an objective investigation into the existence of subsidies and injury, if confined to fresh fish, scallops, and lobsters, would find that significant subsidies exist, and indeed injury to our industry has occured. Previous attempts failed, but both political and economic conditions are different now. It is my opinion that other forms of relief are possible and preferable, and that duties should be used as a last resort. Even though duties may be justifiable, I don't think they would effect the desired change.

Nearly all fish prices in New England are in some way influenced by the Boston and New Bedford auction. The auction price is based on the price paid by a limited number of buyers for the catches of a few boats each day. This price is then communicated within an hour or two to the whole New England coast, and is used in varying schemes to govern the prices paid to nearly every boat on the coast. The vast bulk of Canadian fish is available to these same few buyers and thus very directly affects the price offered for the auctioned fish. Thus a large volume of Canadian fish arriving in Boston on a given day not only affects the price offered for the auctioned fish, but also the catches that will never see Boston or New Bedford. Pricing systems are so fluid and volatile that duties, unless very large would be absorbed into the auctioned price and rather than exert an upward influence, might well succeed in lowering the price to Canadian and U.S. fishermen alike.

It is clear, however, that some form of relief from the effects of imports is necessary. There are several factors which point to severe economic hardships for fishermen for the next several years. It is expected that scallop landings will decline, due in part to new management plans that limit size. A new finfish management plan will regulate our fishermen but not Canadian fishermen. Fuel prices are expected to continue to rise while Canada continues to regulate its fuel price. Interest rates are expected to continue at unprecedented levels. These factors are not all caused by Canadian imports. However, because of the unregulated supply of Canadian fish, the supply/demand relationship does not influence price with the normal result.

By limiting the rate of flow of Canadian products, some relief can be expected. It may not be necessary to reduce the yearly import volume, or to levy duties on product value. A method of controlling the daily flow would allow the products to be absorbed by our markets with a less disruptive effect on our fishermen. A regulated flow would obviously have some affect on the Canadian fisheries, but not as much as duties or other restrictions, and not as much as the unregulated flow has on our fisheries. A steady supply would not encourage prices to fall to absorb duties.

With most products coming into our country, regulation is easy. A T. V. has a cost and it doesn't spoil in a week. Fish are imported and then sold. The price is fixed by the buyer and not the seller. The price can double one day and drop in half the next. All that makes any form of regulation difficult. It is my opinion that any form of remedy should address itself to the stabilization of the flow of product into our market. The prices paid and the viability of our industry will adapt, without the interference of a supply that is not subject to the same constraints ours is.

(7)

- Forms of Government support that Canada provides it's Fishing Industry

1. Fishing Vessel Construction Assistance Program

   provides 35% grant in new construction

2. Fisheries Improvement Loan Act

   provides low interest loans up to $50,000 for gear and upgrading vessels

3. Unemployment insurance (even though self employed)

   provides up to two thirds of pay, up to $133. per week

4. Sales tax exemption on fishing gear

5. No provincial or federal sales tax on fuel

6. No provincial or federal excise tax on fuel

   a savings of 8.39/ gallon (1976)

7. Fisheries Loan Board

   Loans 20% of construction and repair after Federal Grant; Loans at 6.5% compared to 12% unsubsidized (N.S.) (New Fourdland 3.5%)

PREPARED STATEMENT OF M. J. KUEHNE

Mr. Chairman and members of the Committee:

I am M. J. Kuehne, Executive Vice President of Northwest Independent Forest Manufacturers. NIFM is a forest products association with 30 members in Washington State who operate approximately 40 sawmills, plywood plants, veneer plants and shake and shingle mills. Our members manufacture building materials primarily from national forests and state-owned timber for sale primarily in the U. S. market. We represent the majority of such manufacturers in the small and medium sized class that are independently owned, that is, they are owned primarily by the people who manage and run the mills. Nearly all are classed as small business, having less than 500 employees.

At the outset, let me say we very much appreciate this opportunity to acquaint members of Congress and particularly the members of this Senate sub-committee with the problem of subsidized Canadian lumber imports which threatens our very survival. I will discuss (1) the problems posed by increasing Canadian imports, (2) the problems we have found in attempting to remedy the situation and (3) some suggestions for solutions from what limited knowledge we have of this issue.

As independent forest products manufacturers in Washington State today, we face a housing market which has been seriously impacted by high interest rates. New home construction is our major market for lumber. However, we have faced these difficulties twice before in the last eleven years, in 1970 when U. S. lumber consumption plummeted to 31.6 billion board feet and in 1975 when it fell to 30.2 billion board feet. Lumber consumption in 1981 will run very close to the 1975 level. Based on the first 8 months, I would estimate 30 billion board feet of lumber will be consumed in the U. S. in 1981. The difference between previous market bottoms and the current situation is the dramatic increase in Canadian lumber imports. They have increased nearly 4 billion board feet from the 1975 level while U. S. sawmills have decreased by that amount. Canadian production has increased from 18.7% to 31.6% of the U. S. domestic market share. Small and medium sized mills in Washington State and those dependent on public timber for their raw materials around the west have been particularly severely impacted by this staggering increase in imported lumber, primarily from British Columbia. An offset of 4 billion board feet in lumber market share translates into 35,000 to 40,000 logging and sawmilling jobs. We estimate that 4,500 have been lost in Washington State alone in logging and milling. For each direct job, economists estimate between two and three indirect jobs are generated in service, supply, trade and other secondary employment. Thus, we are talking about an employment impact of some 13,500 jobs or more just in Washington State. Unemployment in the forest products industry has hovered at 20% for the past year and a half. Virtually every one of our members has either closed their mill or curtailed production during this period. A number of these had never closed their plants before in over 30 years of operation. A typical scenario has been to reduce the number of shifts . . . the hours worked per day . . . the number of days worked per week . . . to operate for several weeks at reduced capacity . . . close for several weeks, re-open and continue the cycle, hoping to hang on until market conditions improve. I can tell you that without fear of contradiction that none of our members have turned a profit this year. In some cases the losses over he past two years are approaching the net asset value of the company. Some very well managed, efficient operators will not survive another year similar to this one.

Now let me explain why Canadians are able to operate and increase their market share during these poor market conditions. British Columbia, which exports well over half the lumber and other wood products in Canada, and which province lies just north of Washington State, is the province in Canada with which I am most familiar. In British Columbia 90% of the timber harvested comes from lands owned by the province. In order to maintain full employment, the province of British Columbia has eliminated competitive timber sales and allocates timber to mills in British Columbia at far below the true value of that timber.

In 1980, Professor David Haley published a report "A Regional Comparison of Stumpage Values (price paid for standing timber) in British Columbia and the United States Pacific Northwest". This study shows public timber sold in Oregon and Washington for 8½ times the average price paid in British Columbia in 1978. Mr. Haley concluded, "There is little doubt that the principal reason for higher stumpage in the Pacific Northwest is that all public agencies involved in timber production encourage competitive bidding for standing timber, whereas in British Columbia competitive sales of public timber have been virtually eliminated". He went on to conclude, "There is good reason to believe that if public timber in British Columbia was sold competitively, stumpages, in many cases, would be bid well above their appraised level and direct Crown revenues would be substantially increased".

I have taken the Haley study, analyzed the procedures used and confirmed its accuracy up through 1978, which is the latest data that was available at that time. I have gone beyond that to up-date the report to include timber sold in 1979 and 1980. The differences have become even greater in the past two years. The average price paid for standing timber sold on timber sales and harvesting licenses in British Columbia during 1980 was $24 per thousand board feet compared with $286 per thousand board feet from national forest lands in Oregon and Washington. That is a 12 to 1 price difference. Considering the fact that the price paid for standing timber is about one-third the total cost of manufactured lumber F.O.B. mill, you can understand how British Columbia mills have a price advantage which simply cannot be overcome by better management or newer more efficient equipment.

In addition to this obvious raw material cost advantage, British Columbia mills also enjoy an advantage in lower energy costs, cheaper trans-continental rail costs and cheaper water-borne shipping to the U.S. east coast. The latter being a result of the Jones Act. You can see from this that if these practices are allowed to continue we lumber manufacturers in Washington State and much of the rest of the west will be residual producers in our own market. We will operate only at the peaks of the housing cycle . . . on a boom and bust basis which would have a devastating impact on scores of communities in Washington State where mills are located and upon the total economy of the state.

Now I would like to get into difficulties we have pursuing remedies to this situation. One of the most significant problems dealing with this issue is that many of the major forest products companies in the United States also have manufacturing operations in Canada. In a number of cases these companies are benefiting directly from the difference in the price of standing timber in the United States and in Canada. They are major land owning companies in the United States and profit from high prices for standing timber, whereas in Canada they do not own forest land but are purchasers of low priced timber from the province.

In addition to this split in the U.S. industry, the Canadian companies themselves are members of the major forest products association here in Washington, D.C. that represents the U. S. forest industry. They have representatives on the Board of Directors of this association and the association directly receives approximately $400,000. per year in dues from that Canadian production. These factors make it impossible for this issue to be dealt with effectively by the major forest products associations representing lumber production in the United

States.

This also proposes a significant problem in anti-dumping and countervailing duty actions in the definition of the industry and in definition of the market. In addition, Sections 201 and 301 and other international trade remedies are normally established on the basis of actions by a national government, whereas in this case, at least as we know it now, our primary concern is with subsidies provided by the provincial government in the form of cheap standing timber. We do not know if timber is subsidized in other provinces. Another difficulty is that we are established as an association only within the State of Washington. It is difficult for us to join with other parts of the industry who are also affected in the west or even the south. This makes it very difficult to proceed with any of the normal trade remedies that are available. We also lack the funds to do all of the complicated studies, analysis and legal work required to pursue these efforts. It is difficult for 40 small and medium sized mills to possibly stand against hundreds of mills in British Columbia plus the multi-national corporations who oppose us, the Canadian national government and the provincial government of British Columbia.

Now let me admit that I do not understand all of the legal ramifications and all of the possibilities of proceeding with anti-dumping, countervailing duty, Section 301, Section 201 and Section 332 actions. It does, however, seem to me that we have a somewhat unique problem as a small segment of a very large industry attempting to proceed with these actions. In this type of case we would hope some sort of special assistance might be available from the Department of Commerce or the International Trade Commission if we proceed to file a countervailing duty petition.

Another possibility that we are investigating is assistance from the U.S. Small Business Administration. I recently read a statement by the new General Counsel for Advocacy in the Small Business Administration, where he stated they would provide assistance to small businesses in trade related matters. I am not sure what kind of assistance this might be at this point.

From what I have been able to determine at this point, it seems that the most direct assistance that could be provided by the United States Senate would be for the Senate Finance Committee to request the ITC initiate an investigation under Section 332 of the Tariff Act of 1930 on the effect of subsidized softwood lumber imports on the U.S. industry. This action could greatly reduce the expense that we might have in pursuing the filing of a countervailing duty petition.

Finally, I would suggest that there is a need for some sort of a new remedy available to small businesses where their situation may differ significantly with that of the entire industry. This remedy could provide a tax credit to small domestic manufacturers equal to the amount of the subsidy being provided by the foreign producer, rather than the establishment of a countervailing duty on all imports of a product. That is just one idea. I am not sure whether it is feasible or not. Certainly it appears that some sort of additional remedy is necessary.

Again, I thank you for your attention. I would be pleased to try to answer any questions you might have.

CANADIAN SOFTWOOD LUMBER IMPORTS
AS A PERCENTAGE OF TOTAL U.S. CONSUMPTION
(In million board feet)

Year	U.S. Mills	Canadian Imports	Other Imports	Total U.S. Consumption	Canadian % of U.S. Consumption
1/ 1975	24,569	5.666	45	30,380	18.7
1/ 1976	27,608	7,905	45	35.558	22.1
1/ 1977	29,668	10,344	42	40,054	25.8
1/ 1978	29,623	11,764	77	41,464	28.4
1/ 1979	27.791	11,068	50	38,909	28.4
1/ 1980	22,831	9,514	25	32.370	29.4
2/ 1st 8 months 1981	14,860	6,561	17	21,438	30.6
3/ Est. Total 1981	20,425	9,500	25	30,000	31.6
3/ Est. 1975-81	-4,144	+3,834	-20	+380	12.9

Source:

1/ Western Wood Products Association
Statistical Yearbook of Western Lumber Industry, 1975-80
2/ National Forest Products Assn. - Fingertip Facts, August, 1981
3/ NIFM estimate based on current market conditions

Prepared by: Northwest Independent Forest Manufacturers.

11/81

BRITISH COLUMBIA LUMBER EXPORTS INTO REGIONS OF THE UNITED STATES BY METHOD OF TRANSPORTATION

(in Million Board Feet)

Year	Shipped By	NE	NC	SE	S	WEST	TOTAL
1975	Truck	3.3	9.3	1.9	2.2	145.1	161.8
	Rail	619.6	1,425.7	723.4	537.1	230.2	3,536.0
	Water	403.8	0.0	195.3	3.6	38.1	640.8
	Total	1,026.7	1,435.0	920.6	542.9	413.4	4,338.6
1976	Truck	8.1	15.3	3.3	2.8	257.7	287.2
	Rail	732.0	2,093.6	901.3	813.6	416.4	4,956.9
	Water	621.8	0.0	261.7	0.0	116.7	1,000.2
	Total	1,361.9	2,108.9	1,166.3	816.4	790.8	6,244.3
1977	Truck	2.5	15.5	2.8	3.5	449.1	473.4
	Rail	575.9	3,148.0	962.3	897.0	546.2	6,129.4
	Water	771.7	0.0	364.0	29.8	223.9	1,389.4
	Total	1,350.1	3,163.5	1,329.1	930.3	1,219.2	7,992.2
1978	Truck	5.5	28.4	7.1	9.7	568.7	619.4
	Rail	580.4	2,531.3	1,297.1	1,284.1	717.6	6,410.5
	Water	683.4	0.0	415.7	48.8	258.5	1,406.4
	Total	1,269.3	2,559.6	1,719.8	1,342.7	1,544.7	8,436.1
1979	Truck	8.5	50.2	11.6	11.6	581.9	663.8
	Rail	539.2	2,178.4	1,295.9	1,207.7	624.9	5,846.1
	Water	588.8	0.0	345.9	56.2	225.5	1,216.4
	Total	1,136.5	2,228.6	1,653.4	1,275.5	1,432.3	7,726.3
1980	Truck	4.8	38.1	3.8	15.6	515.9	578.2
	Rail	450.1	1,645.6	1,272.1	1,093.1	486.9	4,947.8
	Water	355.9	0.0	199.3	15.6	229.2	800.0
	Total	810.8	1,683.7	1,475.2	1,124.3	1,232.0	6,326.0
1981	1st Qtr.	N.A.	N.A.	N.A.	N.A.	N.A.	1,569.0

Source: British Columbia Council of Forest Industries

6/81

A COMPARISON OF AVERAGE STUMPAGE BID PRICES OF TIMBER SOLD IN BRITISH COLUMBIA BY TIMBER SALE HARVESTING LICENSES AND TIMBER SALES COMPARED TO TIMBER SOLD IN OREGON & WASHINGTON FROM NATIONAL FOREST LANDS, DURING 1970-80

(In U.S. $/Thousand board feet, scribner scale)

Year	Coastal D. Fir			Interior D. Fir			Hemlock			Cedar			All Species		
	FS	BC	Diff	FS	BC	Diff	FS	BC	Diff	FS	BC	Diff	FS	BC	Diff
1970	42	25	17	8	10	-2	20	8	12	15	6	9	27	8	19
1971	49	17	32	4	14	-10	21	6	15	17	5	12	30	7	23
1972	72	21	51	16	26	-10	49	7	42	68	7	61	53	14	39
1973	138	33	105	60	49	11	99	16	83	147	24	123	103	29	74
1974	202	32	170	68	29	39	111	12	99	217	12	205	142	16	126
1975	170	13	157	34	3	31	68	6	62	119	3	116	102	4	98
1976	176	16	160	39	4	35	78	3	75	160	6	154	113	4	109
1977	226	21	205	71	11	60	89	6	83	150	21	129	154	7	147
1978	250	18	232	98	39	59	112	6	106	207	46	161	185	21	164
1979	394	47	347	82	55	27	197	14	183	329	75	254	270	34	236
1980	432	76	356	71	28	43	208	27	181	301	27	274	286	24	262

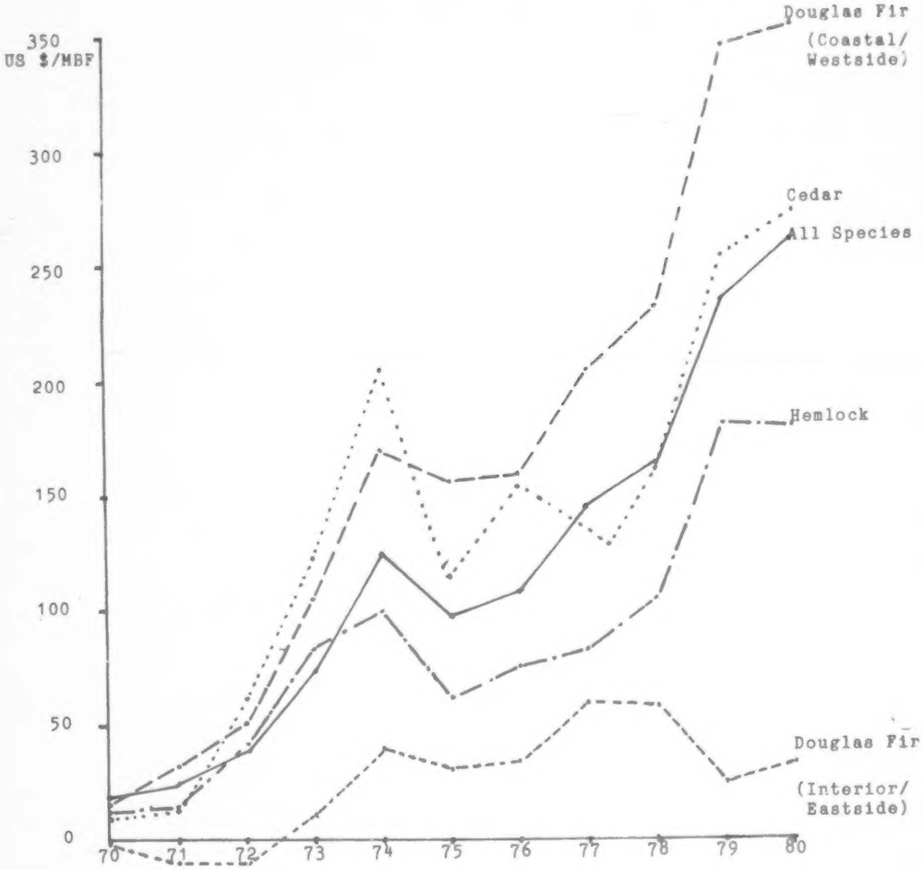
Note: The following conversions were used: Canadian to U.S. $ 1970-.958; 71-.990; 72-1.009; 73-1.000; 74-1.022; 75-.931; 76-1.014; 77-.941; 78-.877; 79-.850; 1980-.850. $/cunit to $/thousand board feet multiply by 1.85; $/cubic meter to $/thousand board feet multiply by 5.24

Source: B. C. Forest Service Annual Reports 1975-80
USDA Forest Service, Production, Prices, Employment & Trade in Northwest Forest Industries, first Quarter 1981

Prepared by: Northwest Independent Forest Manufacturers 11/81

DIFFERENCE IN STUMPAGE BID PRICES OF TIMBER SALES SOLD FROM PROVINCIAL LANDS IN BRITISH COLUMBIA & FROM NATIONAL FOREST LANDS IN OREGON & WASHINGTON, DURING 1970-80

(In U.S. $ per thousand board feet, Scribner)



Prepared by: NIFM 11/81

Senator **Cohen**. I'd like to introduce our panel of Government witnesses today. We're pleased to have the Honorable Lawrence J. Brady, Assistant Secretary for Trade Administration of the Department of Commerce; Mr. Stephen L. Lande, Assistant U.S. Trade Representative for the Americas, accompanied by Mr. Donald deKieffer, who is General Counsel for the Office of the U.S. Special Trade Representative; and Richard A. Smith, Administrator of the Foreign Agricultural Service of the U.S. Department of Agriculture.

We've invited representatives of the International Trade Commission to be available for answering questions. Mr. Fry, Mr. Easton, and Mr. Gearhart are here for that purpose.

In the interest of time, gentlemen, I request that you summarize your testimony, to the extent that you can, with the understanding that all of it will be included in the record.

TESTIMONY OF LAWRENCE J. BRADY, ASSISTANT SECRETARY FOR TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE; STEPHEN L. LANDE, ASSISTANT U.S. TRADE REPRESENTATIVE FOR THE AMERICAS, OFFICE OF THE U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY DONALD deKIEFFER, GENERAL COUNSEL; RICHARD A. SMITH, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE; WILLIAM E. FRY, DIRECTOR, OFFICE OF INVESTIGATIONS, INTERNATIONAL TRADE COMMISSION; EDWARD R. EASTON, ASSISTANT GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL; AND WILLIAM W. GEARHART, JR., ASSISTANT GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL, INTERNATIONAL TRADE COMMISSION

Mr. **Brady**. Thank you, Mr. Chairman.

My statement is only a few pages. I'll run through it quickly.

Mr. Chairman, it's an honor and pleasure to appear this morning to discuss the impact of United States-Canadian trade policies on small border State industries. My statement will outline the Department of Commerce's responsibilities to administer the countervailing duty and antidumping laws under the Tariff Act of 1930, as amended. I will then discuss what steps we are taking to insure that small U.S. border companies are not being unfairly disadvantaged by Canadian imports.

Before we begin, I'd like to add that I'm a resident of New Hampshire, which borders on your State and Canada, and I share your concern for the economic vitality of our region.

Secretary Baldrige and Under Secretary Olmer have promised you and the Congress that they will vigorously enforce the countervailing duty and antidumping statutes. I also assure you that I will carry out their promise, and I will do so in a manner which does not favor particular industries or certain regions of the country.

Small businesses are the lifeblood of this country. We will continue to assist them in determining if they are being injured by unfair trade practices. In fact, we consider the assistance we give them a special obligation. The process of bringing a petition and seeing it through to a successful conclusion is not easy for a small business.

United States-Canada trade is the most extensive of any two countries in the world. In 1980, our two-way trade exceeded $77 billion, accounting for over 18 percent of U.S. world trade and 70 percent of Canadian world trade. In 1980, our trade deficit with Canada was $6.6 billion.

Much of our economic interdependence with Canada is helpful to us politically and economically. The United States and Canadian Governments, however, must be cautious of how our two-way trade affects our respective border industries. In border trade, there are no geographical barriers that naturally protect domestic industries. In addition, Government policies in support of their exporters have a more immediate impact on bordering countries.

In this regard, we're very concerned by Canada's increasing Government intervention in the economy. For example, Canada is vigorously pursuing policies of export expansion and import substitution. The U.S. Government has discussed these concerns with Canada in high-level bilateral talks. If these talks are not successful, however, we have laws to protect our industries which may be adversely affected if these Canadian policies are translated into unfair trade practices.

The International Trade Administration in the Department of Commerce has the responsibility for enforcing the antidumping and countervailing duty laws. Both of these laws can be of significant help to small U.S. border industries which are suffering financial harm from increasing Canadian exports.

Under the countervailing duty statute, U.S. companies who believe they are being injured may petition for the assessment of a countervailing duty on exports which receive Canadian Government subsidies. If a U.S. company, particularly a smaller company with limited resources, has reason to believe that its Canadian competitors have received provincial or Federal Government assistance, it may call on our Office of Investigations for help in formulating a countervailing duty petition. Using information from the petitioner, relevant subsidy information from past investigations or from our subsidies library, we will advise and assist the company in its effort to file a petition in proper form.

Senator COHEN. Mr. Brady, I don't think you were here earlier, and it's a bit unfair for me to call this to your attention, but we had six witnesses who appeared before you, especially Mrs. Kelley, who indicated a pattern of coming to Commerce, ITC, and finding no information available, very little in the way of help, and being bounced around from agency to agency.

You come forward this morning and say that all they have to do if they've got an industry that can't afford it and feels that it's being jeopardized by unfair trade practices is to come to your office and you'll help put that petition together.

I know Mrs. Kelley would love to have that cooperation, because she's got to spend about $120,000 to hire a law firm here in Washington to put that together, and maybe even then not successfully.

So if what you're saying is that Mrs. Kelley can come to your office, and you'll help put that petition together, it might reduce her legal costs. That's not what you're saying, though, is it?

Mr. BRADY. It's precisely what I'm saying, Mr. Chairman.

I think I have to be fair in saying that no agency, including mine, has the resources necessary to go out and do the entire case. In other words, we can't substitute for some of the information that the domestic industry has to give us.

Senator Cohen. Where will they get the information?

Mr. Brady. They're in the trade, and to a certain extent they have to tell us about the trade patterns, the export/import patterns, their belief as to what the subsidies are, and what kind of practices exist.

As a matter of fact, we're initiating a case on herring, smoked herring—I believe we initiated it last night—where we cooperated with the individual to a tremendous extent, because he's a very small producer in Lubec, Maine.

But since we've been in office, Mr. Chairman, since January 20, we've been trying to remedy those problems you refer to, and we still have a way to go.

Senator Cohen. I'll give you an example of what I'm concerned about.

How would you go about, for example, defining what a subsidy is? Do you have any records where you keep a list of those programs that Canada has that constitute subsidies? Can you tell me the difference between a subsidy and a general grant program or general government policy?

Give me a list of the ones that you think constitute subsidies.

Mr. Brady. I believe the DREE program, we've ruled before, is a subsidy. It's my understanding that we have had countervailing cases in the past. There has been a determination that there were subsidies. But using a provision of the law which no longer exists——

Senator Cohen. A waiver.

Mr. Brady. A waiver was granted.

Senator Cohen. You see, what we've got is, No. 1, a very time-consuming, very costly, and very complex, and ultimately illusory remedy. Its on the books, and it says: "All right, assuming you can get all this information together, Mrs. Kelley, get a petition together, hire a Washington law firm, come before us, and show us the economic factors involved. Prove your case under an administrative procedure which requires substantial evidence in a quasi-judicial process proceeding all the way up through Congress, the ITC, and the President. After all these checks and balances, you may ultimately get a remedy 6 months later, maybe a year, and maybe never. Ultimately, if you had a case it could be waived."

How much of an incentive is that for anybody in our private sector to turn to the Federal Government for relief? I would submit to you, very little.

Mr. Brady. Mr. Chairman, I'm not going to argue with that. I will only say that based on the people who are administering the program now—namely Secretary Baldrige, Under Secretary Olmer, and myself—there is a new attitude.

When Secretary Baldrige talked to me, called me down from New Hampshire, as a matter of fact, and offered me the job, he said, "Larry, I want to make absolutely certain these GATT laws are strictly enforced, and I mean precisely that."

I think you're going to find that we have a willingness and a very strong desire to do that, notwithstanding what happened previously.

Senator Cohen. Can you take administrative notice, which is comparable to judicial notice, of certain factors? We have Mr. Kuehne, for example, say that you've got about a 12 to 1 disparity in the Canadian practice for assessing or selling publicly owned stumpage. There's a 12 to 1 built-in advantage, notwithstanding the interest rate problem we have here, notwithstanding the 17 percent monetary exchange rate differential. Can't you take administrative notice that there's a built-in advantage in that sort of practice, and take some action to correct it? Can't that be done?

Mr. Brady. Mr. Chairman, we do and we will. In the final analysis, however, we have to follow the law and the regulations as to what a subsidy is. If the Canadians are willing to sell without subsidy their natural resource at a very low cost, in the final analysis there is nothing we can do about that. It's sold there and here at the same price.

Senator Cohen. Is that definitional or not? In other words, they call it just an economic program. We decide that we're going to have a 12 to 1 disparity. You've got a line here—very little difference in geography—and there's a 12 to 1 difference in price. You can call that a general government program, or you can call it a subsidy. If you call it a subsidy, then you get relief. If you call it a general Canadian program, there's no relief.

Mr. Brady. I know what you're saying, and I also know that the definition of a subsidy is not a static definition.

Senator Cohen. Let me tell you another example. You weren't here before. We've got about 9 pages from the Shaffer Report, Department of Fisheries and Oceans in Ottowa, September 1981, describing Government financial assistance programs available to fishermen in the Atlantic groundfish industry. It goes on from the fishing vessel construction assistance program to the fishing vessel insurance program, the fisheries improvement loans program, the shipbuilding industry assistance program, unemployment insurance benefits, fisheries loan program; the list goes on and on and on. Now, do you call those programs subsidies?

Mr. Brady. Mr. Chairman, we'd love to have a look at that list. [Laughter.] Because what we'd like to do is to examine those to see whether they, in fact, are subsidies.

Senator Cohen. Have you seen that book?

Mr. Brady. I have not personally seen it.

Senator Cohen. Anybody seen that book? ABC, Assistance to Business in Canada.[1] It's put out by the Board of Economic Development Ministers in Ottawa, I believe, and published probably at Government expense. But I'm going to give you a copy. I'm going to request you to go through each one of these programs and tell me whether they're subsidies or not, and identify which ones you'd classify as subsidies and which ones you'd call just general programs.

Then later I'm going to ask you to start to try to refine what constitutes a subsidy, if it's subject to some sort of relief on the part of this Government, to distinguish what is simply a general economic program by the Canadian Government which ultimately has the same effect of providing an advantage to the Canadian competitor.

Mr. Brady. I understand. I appreciate that. One word, Mr. Chairman, on countervailing duty procedures. Once a company files a petition, one in which we may have worked very closely with them, it could conceivably receive initial relief within 85 days of that filing. Basically what happens is as follows: First, we determine that the petition is in proper form. We formally initiate an investigation and present to the Canadian Government a detailed questionnaire. We design the questionnaire to determine whether or not there's a subsidy or grant. In general, we regard any Government program which is preferential in nature, which benefits a specific industry, as a potential subsidy.

---

[1] Full report retained in subcommittee files. See excerpts on p. 253.

Third, we analyze the information received in response to our questionnaire within 85 days of filing to make a preliminary determination. If this preliminary determination is affirmative, we direct U.S. customs officials to require a deposit of estimated countervailing duties or bond in lieu thereof on all subsequent entries of the imported Canadian merchandise.

Senator COHEN. Mr. Brady, tell me how you analyze the information. What is the process that you use? You just told me earlier that you depend upon the people out in the business to come up with these figures. But assuming that you have your questionnaire and that the Canadian Government responds to it, tell me what administrative process you go through to analyze that information. Then how do you verify it?

Mr. BRADY. Mr. Chairman, the more information the better, in essence, in addressing these petitions, and so we need information from the business community. Basically, we verify the allegations.

Senator COHEN. How do you analyze it?

Mr. BRADY. Well, we analyze it with our economists, with our accountants, to determine what the subsidy is, how much it is. We verify it. We send teams out to these various countries to investigate or look at the practices of the various concerns, follow up on the questionnaire, ask them questions, precisely what is done in practice as well as in theory on what was answered. So it's a rather extensive, detailed verification process.

Senator COHEN. Are you aware that Mrs. Kelley said that she found contradictory statistics that are kept by our departments, USDA, and Commerce, as compared to the Canadian reports? You weren't here, I guess, during that testimony but it showed a vast discrepancy between loads of potatoes coming into our country.

Mr. BRADY. I am aware that there is a real problem in terms of Customs verification or accountability or statistics, a classification problem as to whether or not potatoes are seed potatoes or baking potatoes.

Senator COHEN. It reminds me of mercury on a mirror. The whole issue we have here is that you've got to show. No. 1, a subsidy. What do we call it? Is it a subsidy? Is it a grant? Is it a general economic program? Then, once you decide it's a grant or a program or a subsidy, you've got to do the following things. First, you've got to verify it, and it slides along that mirror and you can't quite get your hand on it. Then you finally think you've got it and what happens? They decide they've terminated the subsidy, and we've decided that in any event, if they haven't terminated it, we've waived the countervailing duty. So it's a very, very serious problem, and I don't mean to make light of it.

I have been to meetings, and I assume that you have been to meetings when it's not quite as calm and philosophical as we've had here today. I couldn't help but think of Mr. Salisbury as he testified. I have been to meetings where fishermen have been at the explosive point. I know that Maine potato farmers blocked the Canadian border line, to say no more. That comes about when they reach the boiling point of frustration, seeing their whole livelihood going down the drain. They see a Congress or an administration saying, "Well, Senator Cohen, it really isn't a subsidy, it's an economic program; and by the way, we really can't negotiate exchange rate differentials because the Canadians said that's nonnegotiable. By the way, we've got high interest rates here, after all, and you really haven't established your case. You've got to go back and refile that petition. You went the wrong way in antidumping. You should have been in countervailing duties, or maybe section 301, or possibly 332."

This is the sort of frustration that's building up. And if they don't find some sensitivity here in Congress or in the administration, it's going to erupt again. And that's everything that we deplore and want to prevent. They haven't had much reason in the past to feel that they're going to get any redress from any administration.

Mr. BRADY. Mr. Chairman, a couple of points. One, the classification problem: it's not a question of subsidy, it's a question of fraud.

Senator COHEN. A question of what?

Mr. BRADY. Of fraud. A question of falsification of documents when imports come into the country.

Senator COHEN. No, no. I don't mean fraud.

Mr. BRADY. I'm talking about the classification problems specifically.

Senator COHEN. You're talking about seed potato versus table stock.

Mr. BRADY. Right.

Senator COHEN. That's something else. What I'm talking about are these programs here, as to whether we call them subsidies or not. We don't even know that. If I gave you this sheet now, you could not tell me whether these are subsidies or simply economic programs.

Mr. BRADY. No, because we'd have to go back and get to the background of each of those programs, and make an assessment as to whether or not they qualified according to the legislative intent and specifics of the act.

Senator COHEN. If a program is essentially a general economic program but has the result of providing a subsidy to the industry, does it make any difference as far as the impact under our existing laws as to what the remedy is?

Mr. BRADY. I think it makes a difference, Mr. Chairman, if it's intended primarily to help exporting industries, and I think that's what the criterion is.

Senator COHEN. Let me read this statement to you. You didn't hear this this morning, but it's from our State Department and it says:

> It appears on the basis of the 1978 figures, total government assistance, including administration of unemployment insurance premiums, amounted to at least half the value of landings of all types of fish. If fishermen and processors were to bear the full cost of these services, they would not be able to catch or process fish.

Now, there's a statement by our State Department analyzing the Canadian programs.[1] What does that say in terms of the kind of proof we need? What type of proof do the fishermen of Maine and New England have to come forward with, when you have an array of programs that give a decided advantage to the Canadians to compete with them?

Mr. BRADY. Mr. Chairman, the first point I'd make is we would like to receive that information.

Senator COHEN. I'll give it to you as soon as this is over.

Mr. BRADY. I'm not going to apologize for the actions of the past. The fact that this program is now administered by the Commerce Department rather than the Treasury Department was a decision made by the Congress reflecting the unhappiness with the manner in which the law had been administered by Treasury. All I can assure you today is that if this information is brought to us, we will work on it, we will analyze it, and we will work very closely with every one of these border industries that are being injured. And I would only say again, I was born and raised in northern New Hampshire, so I am exceedingly aware of the problems that those States face and I'm more than willing to administer the law precisely as you and the Congress intended for it to be administered.

Senator COHEN. It becomes difficult when I raise this particular State Department document. You take that into account, but in fact the fishing industry in New England brought three separate petitions for countervailing duties, and in each case relief was denied. Then you have a report that comes out of our own State Department, unclassified, that says that without these programs Canadian fishermen would not be able to be in business. Here you have our fishermen following an orderly process of law and being denied relief in three major cases, and yet you have a document which says that the Canadians could not compete, could not even fish or process the fish they catch without all of these programs.

Mr. BRADY. Mr. Chairman, I'm not going to disagree. Obviously, the fact that the provision is not in existing law affects the displeasure of this committee and the Congress. You would not find that situation being repeated.

Senator COHEN. Let me ask you, what kind of restraints are going to be placed upon your department with the budgetary restrictions that do, in fact, exist, and may come about in the future?

Mr. BRADY. I don't think that we're going to have any major restraints out into the 1983 budget. There's one cloud on the horizon, and that is if the U.S. steel companies file large numbers of antidumping cases, which is being rumored, our resources are going to be strained and strained beyond belief. We would then have a problem. But at the moment, I think we have adequate resources to deal with all of the issues before us, including these.

Senator COHEN. Tell me what sort of an information center you have, as such. How do you collect information? It's my understanding that certain industries, on a regional basis, can file for a petition for relief based upon the penetration into that certain region. But the problem, from what we've found from previous witnesses, is that the information is collected not on a regional basis but on a nationwide basis. How does a petitioner segregate out the regional impact, if in fact our departments do not maintain that information on a regional basis? And can't you get one product buried in a general, broad category and make it very, very difficult for them to ferret out that information and prove the economic impact?

---

[1] See p. 500.

Mr. BRADY. I don't think there's any question that there's a difficulty.

Senator COHEN. How would you recommend we do it?

Mr. BRADY. I would suggest that you address that to the International Trade Commission representative here, because that's really his responsibility. But I recognize that it is a problem, and it's certainly one that we can try to do a better job of on an interagency basis.

Senator COHEN. You see, part of the difficulty is that if you have problems with all of the vast resources available in the Commerce Department, what problems do you think Mrs. Kelley, Mr. Salisbury, Mr. Kuehne or the others would have in trying to prove that they've been injured, or that an industry has been injured? It's virtually impossible.

Mr. BRADY. Mr. Chairman, I'm not going to argue that for a small manufacturer, producer, fisherman, whatever he may be, when facing the Federal Government in Washington, there's a real barrier. I can only tell you again that this office will collaborate with whoever comes in. We will try to be helpful, telling them what kind of information we need, what kind of information we feel only they can get that is peculiar to the trade. And we, in turn, will try to work and get the information we need from other agencies or from the Canadian Government itself.

Senator COHEN. You see, what is most amazing to me is the degree of equanimity. Those people all sat before this table, as they're watching their industries decline and experiencing the kind of frustration that has been kept just below the surface, and said that they don't want vindictive actions taken toward the Canadians, recognizing that they're friends, and friendly competitors. But I can tell you that that won't continue unless this administration or any administration is much more sensitive to the kind of disparities that exist because of the basic philosophical differences.

That's something that we have simply got to come to grips with: That we're committed to free enterprise and somebody else is committed to a system that is not strictly free enterprise. They're not governed by the laws of supply and demand, the kind of restrictions and discipline that's involved. And essentially, you have a corporate welfare system that's installed, cultivated, and nurtured in competition with our industry. And we cannot compete on that basis.

Mr. BRADY. Mr. Chairman, I understand fully what you're saying. I would again point out that not only do we help the industry here in Washington, but we have sent some groups out to the field to Maine and Vermont. These were composed of people from some of the various agencies, to try to come to grips with the concerns, the facts, in some of the industries that were being affected. It's our intention to continue doing that and to follow through, based on the information and the concerns that were raised with us.

Why don't I just ask, Mr. Chairman, that the remaining portion of the statement be included in the record, in full?

Senator COHEN. It will be included in full.

Mr. Lande?

Mr. LANDE. If it meets with the subcommittee's approval, I would like to summarize my statement but have the whole statement appear in the record.

Senator COHEN. Thank you very much, Mr. Lande. It will be included in full.

Mr. LANDE. I am pleased to be here today to present the views of the Office of the U.S. Trade Representative on the impact of United States-Canadian trade policies on small border State industries. I also have with me today our General Counsel, Donald deKieffer, who is in charge of the implementation of the unfair trade practices aspects of the USTR's work.

The United States-Canada trading relationship remains the largest and most extensive of any two countries in the world. In 1981 two-way trade will approach $87 billion, accounting for almost 20 percent of American world trade and more than 70 percent of Canada's total international trade. With such a large proportion of our export trade directed toward the Canadian market, trade negotiations with Canada have traditionally held a special significance.

As the focus of today's hearing is to discuss the impact of our trade policies on small border State industries, let me describe briefly some of the results affecting these industries. The U.S. negotiating position for the multilateral trade negotiations was formulated after extensive consultation with the private sector. Industry, labor and agricultural concerns and advice were communicated to the U.S. negotiators through a system of private sector advisory committees established by the Trade Act of 1974. Representatives of the small wood products, fish and horticultural industries were included on these committees.

Some of the industries were interested in securing improved access to the Canadian market while others sought to maintain their present level of protection from imports. For example, manufacturers of wooden church pews expressed strong interest in securing a reduction of the high Canadian tariff. Despite initial reluctance from Canada, we were able to obtain the concessions from Canada to reduce the tariff from 15 to 6 percent in annual stages.

Senator COHEN. Very low economic factors are involved there, even though the State of Maine is involved in that. We're talking about the impact upon industry. That is not a significant industry, though.

Mr. LANDE. That is true. On the other hand, U.S. producers of toothpicks and clothespins requested that no reduction in the U.S. tariff rates be negotiated. As a result, no cuts in tariff were offered by the United States on clothespins, and only a minor reduction, from 6 to 4.2 percent, were negotiated for toothpicks. However, in recognition of the concerns of the domestic toothpick industry, the staged annual reduction of this tariff will not begin until next year.

U.S. objectives in the MTN regarding the fish sector were somewhat similar. At the request of the U.S. industries, Canadian tariff reductions were achieved on crabs and oysters. In addition, Canada agreed to liberalize Atlantic coast herring regulations to allow shipments of herring in bulk—a key U.S. objective for this industry. Conversely, despite strong Canadian interest in attaining U.S. tariff reductions, no cuts were negotiated on fishsticks and canned sardines.

The administration firmly believes that international trade is, and will continue to be, highly beneficial to the U.S. economy. We are committed to the maintenance of open markets both at home and abroad. However, as Ambassador Brock has emphasized, we will insist on the principles of reciprocity in our trading relationships, and will strongly oppose trade-distorting interventions by foreign governments.

I think many of the points on pages 4 through 6 of my statement have already been commented on by Assistant Secretary Brady, and, of course, we will be very happy to respond to any additional questions.

For many of the small industries, we recognize that the only contact with Washington is through the district offices of their elected representatives. Therefore, it is imperative that the U.S. Congress play an activist role in bringing the concerns of small industries to the attention of the policymakers in Washington. In this regard, we very much compliment and appreciate the objectives and the tenor of this hearing.

Mr. Chairman, an excellent example of the important role that the Congress can play in assuring that the problems of small industries are communicated to the appropriate Government officials is the activities undertaken by your office on behalf of the Maine potato industry. At your request, a representative from our office, along with an official of the Department of Agriculture, traveled to Presque Isle, Maine, last summer to meet with the potato industry representatives to discuss their concerns and to explain possible remedies available to them for addressing their problem.

Senator COHEN. Her remedy is to get a lawyer in Washington at $120,000, and file a petition for countervailing duties. What kind of a remedy is that?

Mr. LANDE. I think that Assistant Secretary Brady, in whose area this responsibility falls, has responded somewhat to the points that you have raised.

Senator COHEN. He's responded by saying, "You're right, Senator. We have got a real problem here, and we haven't responded to it in the past."

Mr. LANDE. I think also, if I heard the response correctly, he also indicated that he does look forward to cooperating and working with the Maine industry throughout.

Senator COHEN. They're going out of business. I was on a plane last week going back to Maine. I met a potato farmer who had been down to Florida trying to find out what kind of an export market he could come up with. Venezuela, for example, wants to buy potatoes, but they don't want to buy any Maine potatoes—they want to buy Canadian potatoes. He can't stay in business much longer.

There's a demand out there, a great demand, but they are not going to buy Maine or U.S. potatoes as long as you have got a subsidized product with a built-in 17-percent rate, plus all the subsidy programs, plus all the transportation costs that they have an advantage on, plus the energy costs, and all of these other programs that have been talked about. How are they going to compete? And what are we going to tell them, "Come back in 6 months, and we'll see what your petition says?"

Mr. LANDE. We would hope that as a result of this hearing, as well as the points that have been raised, that we can make progress in the situation that you have described.

Senator COHEN. Let me tell you what happened in the mushroom industry. You point to that in your testimony as being a classic case where small industries have prevailed. With the mushroom industry, as I recall, there were something like three different petitions filed under section 201. It started back in 1977. The mushroom industry won two unanimous decisions by the ITC that the industry had been, in fact, injured. Those were vetoed by the President in each case. Finally, relief was granted 2 weeks before the Presidential primary in Pennsylvania. What do you have to say to that?

Mr. DEKIEFFER. Given the situation at the time, and the President involved, I am not surprised. [Laughter.]

Senator COHEN. I appreciate your candor on that one. [Laughter.]

Mr. DEKIEFFER. I should suggest that the fact is that section 201, along with the rest of the provisions for relief that have been discussed today, were the subject of rather acrimonious and lengthy discussions before the Senate Finance Committee back in 1979. One of the results of the 1979 act was that we significantly—when I say "we," I mean the U.S. Government, and particularly the Senate—made many of these forms of relief, particularly antidumping and countervailing duties, very, very legalistic.

This is one of the problems that you pointed out yourself this morning. It's one of the issues that came out in oversight hearings before the House Ways and Means Committee last week. It is indeed extremely expensive to bring these cases. I was in private practice for the last 11 years, representing domestic industries in this area, so I am well aware of how much it costs.

The fact remains, though, that Congress felt that it was essential to have much clearer legal safeguards to protect American industries from what were regarded as being arbitrary decisions by the previous administering authorities, particularly the Department of the Treasury, and in being excessively legalistic, they raised the cost of bringing these cases.

The advantages to domestic industries perhaps have been offset by the costs, particularly the smaller domestic industries. I think that it's very clear, as Assistant Secretary Brady has pointed out, though, that the Department of Commerce and our own agency have attempted to assist U.S. industries—particularly smaller ones—to bring good cases when they possibly can, giving them all the assistance possible.

As was suggested by Deputy Assistant Secretary Horlick of the Department of Commerce before the Ways and Means Committee last week, it might be time for the Congress and for the Senate to look into other remedies for smaller industries, including perhaps amendments to the Equal Access to Justice Act, which does not currently cover administrative cases; it only covers cases actually litigated in court. This act, which was passed some years ago, would grant to successful plaintiffs, at least, attorneys' fees.

But you can't really have it both ways. You can't have the kinds of legalistic protections that this body insisted upon in the 1979 act, and also insist on low legal fees. About the only remedy—and I am not advocating this remedy, I am merely suggesting that it might be one thing that might be considered—would be to investigate the possibility of looking at the Equal Access to Justice Act and perhaps making it available in these types of proceedings to smaller industries.

I believe there has been significant improvement both in the Department of Commerce and our own agency since January 20 of this year to assist the small industries. Quite obviously, it hasn't gone far enough. I am not sure what the solution is, but I think that part of the solution might lie here.

Senator COHEN. Mr. Lande, do you want to continue?

Mr. LANDE. It is our understanding that in the potato area the domestic industry has now decided upon the appropriate relief mechanism which they wish to pursue. We believe that consultations such as these, and those we have initiated prior to this hearing, are important in addressing the concerns of small industries. They provide to trade policy officials both a thorough understanding and a better appreciation of the difficulties being experienced by small industries. At the same time, they provide these industries with essential information regarding remedies available to them to address their concerns.

Thank you, Mr. Chairman, for the opportunity to discuss these important issues with the subcommittee. Both Don deKieffer and I will be pleased to answer any additional questions which you or members of the subcommittee may have.

Senator COHEN. Thank you. Let me respectfully suggest to you, Mr. Lande, that to say that you are offering consultation and assistance to Mrs. Kelley and others is like saying that you're giving consolation to a dying patient. What they really need is some sort of major transplant if they're going to stay alive, and not simply consolation or consultation. They have got to have some sort of significant relief in the not-too-distant future, or you are going to find an industry that's put out of business and dependent wholly upon foreign imports.

I am going to come back to this—perhaps we can lead into it now—but I think your prepared testimony outlines some very general priorities the United States had vis-a-vis Canada during the Tokyo Round. You mentioned, I think, machinery, as one of those high priority items that we have. What were the U.S. priorities in terms of products? And what were the major concessions during that first round?

Mr. LANDE. I cannot respond in detail at this time, but can certainly provide to you the information on specific products.

We did have a problem with the machinery regulations, and there has been liberalization. We have also tried to push, vis-a-vis the Canadians, for their adherence to the various codes, particularly the Government procurement and subsidy codes of the multilateral trade agreement.

A particular area upon which we focused in the trade negotiations was this area of disparities. As you know, nothing is more difficult to justify to any particular industry representative than the fact that in his particular item there may be a low import duty into the United States and yet there may be a high export duty into Canada. It is not sufficient to respond by saying: "Yes, but there are items that happen to have a reverse situation." We have some industries that may enjoy a low import duty into Canada and a high export duty into the United States. In this regard, I think we have made significant progress. I will get back to you on specific products.

Senator **Cohen**. Please give me the priorities that we had, and I would like to know if you can at the same time provide me with the Canadian priorities. Do you know that, offhand?

Mr. **Lande**. We can provide that to the subcommittee. I think the Canadian priorities are very similar to ours. They were particularly concerned in the Government procurement area. They also identified areas of tariff disparities.

Senator **Cohen**. They were concerned, I believe, with forest products, fish, and for the Maritime Provinces, potatoes. I would like to know what kind of concessions were made in these several areas, particularly in the fishing industry.

Let me just give you an example of what I am talking about. A USTR document entitled "Fruits and Vegetables in the MTN" notes that the United States conceded a reduction in duties on potatoes.[1] This quote, "modest reduction in duties" was supposed to result in an increase in U.S. potato imports of $300,000. Now, in the past year, 6,000 truckloads, worth an estimated $18 million, went through Maine alone, from Canada. So first of all, I would have to ask, what's the justification for the reduction? Second, why was the financial impact so underestimated?

Mr. **Lande**. I don't know if Mr. Smith would have more data to respond to that type of a question.

I don't know why it was underestimated. One must accept the limitations of a static analysis. But again, it's something that we might review.

Senator **Cohen**. Mr. Smith, we would be happy to hear from you to explain that $18 million mistake.

Mr. **Smith**. Thank you, Senator. I think really the fundamental change that has occurred in the potato trade, which hasn't been addressed here, at least I haven't heard it, is the currency exchange differential, which has been quite dramatic. I think if you look at the numbers on the potato trade, we have had years when we were shipping more to Canada than they were shipping to us.

I think this is part of the trade that's very hard to develop a policy to try to take advantage of that. Incidentally, that's one of the problems we're also having, competing, for example, Venezuela, as you mentioned. I think this is an area in which we will try to work with the industry in any way we can to find ways we can help, particularly on exports.

One of the areas we are going to try to explore is credit, although it doesn't seem to have really helped us at this point.

Senator **Cohen**. Mr. Smith, I am going to ask you to suspend. I have got to catch a vote.

We will stand in recess for about 10 minutes.

[Recess.]

Senator **Cohen**. The committee will resume its deliberations.

Mr. Smith, I believe I sort of cut you off in the middle of a proposal by you that perhaps we should consider some sort of credit program to be extended to U.S. fishermen. Tell me what you mean by that.

---

[1] See p. 630.

Mr. SMITH. I was talking potatoes.

Senator COHEN. Well, potatoes, fish——

Mr. SMITH. We have a credit guarantee program in which we will provide a bank, a guarantee, on the principal and interest, if they can turn around and make a 15-year loan to an exporter which—we'll use this in an effort to develop markets overseas. Of course, one of the problems we have with that right now, interest rates are not very attractive, but that's one area in which we would like to work with the potato industry and see some way that we could be helpful in their efforts to export more.

I think the original question of the trade imbalance that we're having right now with potatoes in large quantities—it's quite dramatic. The amounts of potatoes imported from Canada, we certainly attribute a lot of that to the exchange rate difference. If you look, for example, at duty reductions, we are just in the initial stages of duty reductions. There hasn't been a significant reduction yet. There will be, as time goes on. I think something like half-a-cent reduction in duty applied right now, compared to what it has been in the past.

The issue of export subsidies is a very difficult one, and one that certainly I think we have an obligation to work with the industry to try and establish precisely what the Canadians are doing.

Senator COHEN. Of course, your department opposed that. When I introduced that amendment on the Senate floor, it was opposed by the administration.

Mr. SMITH. But that was the use of an export subsidy by us. I am talking about looking into what Canada is doing in terms of the use of export subsidies as a means of getting an advantage in exporting potatoes. I think that it needs to be understood that just the fact that a subsidy is used is not illegal per se, even under GATT, for agricultural products. What has to be shown in the international sphere is some damage or markets have been taken away from us.

Senator COHEN. Let me explore that with you for a second. Is it your understanding that the petitioner has to show a causal connection between the subsidy and the damage?

Mr. SMITH. That's correct.

Senator COHEN. Not as to the import itself? In other words—my understanding is that what they have to show is that a subsidy exists. They have to show that there is a substantial increase in imports, and that injury is being caused.

Mr. SMITH. Yes; but the injury test is the important one. The others here, I think, know this better than I do. But you have to show financial injury. I don't think just a *prima facie* case of a shift in trade or——

Senator COHEN. In other words, they have to show that the subsidy is the principal——

Mr. SMITH [continuing]. Reason for their financial plight.

Senator COHEN. How in the world are they ever going to do that?

Mr. SMITH. This is where you get into——

Mr. FRY. Excuse me, Senator. I don't believe that that is correct. I think it has to be the imports, not the subsidy.

Senator COHEN. I am glad you raised that, Mr. Fry, because that's my understanding of the law, as well. It is so confused and so ambiguous. If we were to suggest that the interpretation of the law requires the petitioner to prove that it's the subsidy that is causing the injury, then there is no remedy.

In fact, let me read to you from the ITC regulations. They say:

> Effects from subsidized imports will not be weighted against other factors which may contribute to overall injury, nor will the petitioner be required to prove that material injury is not caused by other factors.

That would be directly contrary to what your understanding is, Mr. Smith.

Mr. SMITH. I am dealing, I think, in the realistic world. If a subsidy is being used for the exports and it is clearly causing a problem——

Senator COHEN. Do it the other way around. Let's start from the bottom and work back up. If they can show that there is a significant increase in imports which is causing damage to their industry, and they can also show there's a subsidy involved, then that's all that's necessary. There doesn't have to be a causal connection between the subsidy and the damage, as long as there is evidence of a subsidy.

In other words, they don't have the burden of showing that there's a causal connection between the subsidy and the ultimate damage, but rather, that it's the importation which causes the injury. On top of the importation is a subsidy, but that's not a matter of causal connection, because you would have to separate that whole range of factors—from transportation costs, from fuel costs, from government programs as opposed to subsidies or monetary exchange rate differentials. There is no way in the world they can ever prove a case by singling out the subsidy as the cause of the injury. That's why the regulations are not interpreted in that way.

So I think if anything comes out of this hearing, we ought to have a clarification of exactly what the burden of proof is on this point.

Mr. DEKIEFFER. There's one other factor that should be emphasized. In countervailing duty and antidumping cases, the test is not, "What is the primary cause?" You don't have to show that the cause is more important than all other causes combined.

All you have to demonstrate is material injury, which is applied to anything which is not immaterial, which is obviously written by a lawyer.

The fact is that you went through this continuum, and you should probably emphasize that in section 201 cases, you don't even have to demonstrate the linkage between subsidization or some sort of unfair trade practice at all and injury. All you have to do is demonstrate that increased imports have been a substantial cause of serious injury.

There is a different injury standard in section 201 cases than there is in antidumping and countervailing duty cases, but you do not have to establish that there is some other practice, some unfair practice.

Senator COHEN. I agree.

Mr. Smith, I know you've got some time constraints, so I'll try and focus on you and get through this process.

Mr. SMITH. I think at best it's a rather complicated area. I think the point I was trying to make is that if your imports are increasing because of the subsidy, then you'd probably have a better case.

Senator COHEN. Wait. Stop, stop. Don't continue.

It's not because your imports are increasing because of the subsidy. You're getting back to causation again. It's that imports are increasing, there is an injury, and, by the way, there happened to be some subsidies involved. That's a big difference in terms of evidentiary proof.

Mr. SMITH. But I think the key point that I'm really trying to make is, I think you have to look at the exchange rates as being one of the major causes of the shift.

Senator COHEN. Are you prepared to submit to the Finance Committee when they hold their hearings later that in your judgment it's the monetary exchange rate which is the principal cause of all of the problems caused to the potato industry?

Mr. SMITH. If you had a shift in the exchange rates the other way, I think you'd see——

Senator COHEN. Will you be prepared to submit that as the principal and almost sole factor involved?

Mr. SMITH. I'm not saying it's the sole factor, but I'm saying it's the principal factor, and I think that's why you have such a dramatic change.

Senator COHEN. Would this be a recommendation coming from you to negotiate exchange rates when, in fact——

Mr. SMITH. That's the point I'm trying to make. You can't develop a policy to take into account exchange rates. That would be virtually impossible.

Senator COHEN. But you can develop a policy which takes recognition of the differential in exchange rates and tries to make compensation for that, could you not, on our part? In other words, we can't expect our farmers to compete with a 15-, 17-, or 20-percent differential.

Mr. SMITH. You'd have to get into some kind of a subsidy program.

Senator COHEN. Exactly. And you don't want to do that.

Mr. SMITH. No, we don't want to do that; that's correct.

Senator COHEN. Well, you tell me how they're going to compete with that kind of differential. What are we going to do? Are we going to help with their energy costs? The answer is no; a free market there. Are we going to help with their transportation costs? The answer is no; we don't have any transportation up in that area for the most part. It's all by truck—no rail at all. What are we going to do in the way of helping to offset that built-in 17-percent or 20-percent advantage? What do we say? "You're on your own?"

Mr. SMITH. The only approach that I'm aware of and the tools that we are able to work with is to try to increase exports from the area. That's a remedy—not necessarily the answer. But there are no tools available at the moment that we can use to subsidize exports, which I think was your proposal.

Senator COHEN. How are you going to increase exports? There's a big market out there.

Let me just read this to you:

> In 1979 and 1980, the United States exported something like 232,440 hundredweight of seed while Canada exported nearly 3 million hundredweight, the Netherlands nearly 10 million. We sold no seed to either Argentina or Venezuela, Canada's largest markets.

Now you tell me, what are we going to do to increase exports from this country?

Mr. SMITH. One proposal I was making is, let's see if we could use credit. I would assume there may be some quality aspects, too.

Senator COHEN. Some what?

Mr. SMITH. Quality. There is just at this moment no subsidy tool available. And I think under the current budgeting situation, it's unrealistic to expect that that's going to happen, in addition to the many trade policy problems that we have.

Mr. DEKIEFFER. Mr. Chairman, there may be one other aspect that I mentioned a moment ago. Section 201 was specifically designed to attack these kinds of problems where there was no direct subsidy element.

As I mentioned, the test in that proceeding is that increased imports are a substantial cause of serious injury.

The ITC considers numerous factors, among them exchange rates. They also consider such things as productivity and quality. But if an industry can demonstrate that increased imports have been a substantial part of the serious injury to them, they can get relief. It's up to the President. He has five different forms of relief that he can grant, including raising the duty rates, tariff rate quotas, outright quotas, or any combination of those kinds of factors, including voluntary restraint arrangements.

Senator COHEN. You're a very competent attorney. What does "substantial cause" mean?

Mr. DEKIEFFER. In section 201 the test is, "Increased imports are a substantial cause of serious injury." "Substantial cause" means a cause which is important enough, more important than any other cause. Those are the magic words. It's kind of an incantation.

"Substantial cause" means a cause which is important and not less important than any other cause, which means it is the single most important cause.

What the law attempts to balance here is the question of are there other reasons that an industry is being injured aside from imports? But imports can be increasing for a wide variety of reasons.

Section 201 does not look at unfair trade practices. It is designed to give an industry a period in which to retool or weather a short-period storm. Relief can be granted anywhere between 3 and 5 years.

Senator COHEN. What you're saying, then, is that Mrs. Kelley doesn't have to go to countervailing duty at all.

Mr. DEKIEFFER. That's correct.

Senator COHEN. But rather simply show there has been a significant increase in imports coming into the United States and into Maine that is causing injury to the domestic industry. Forget about the exchange rates, as you're suggesting, and forget about subsidy programs, but rather you've got in essence the decimation of a local industry by virtue of imports.

Mr. DEKIEFFER. That's correct. I should emphasize, though, that the standard of injury required in the escape clause for section 201 cases is different. It's a higher standard than it would be antidumping or countervailing duty cases.

Second, in section 201, our escape clause cases, the recommendation of the International Trade Commission goes to the President through the U.S. Trade Representative's office, where different factors are also considered—such as public interest factors and national economic interest factors. To date there have been 7 or 8 cases, out of some 40 cases that have been brought, that have been given relief either in the form of quotas or increased tariffs or something like that.

Certainly, this is one of the procedures that your constituent can use. There are other procedures as well that haven't been discussed, like section 301, which is another avenue conducted basically in the GATT.

Senator COHEN. Where you've got actions of the foreign government that are unreasonable, unjustifiable, or discriminatory—is this the test under section 301?

Mr. DEKIEFFER. That's correct.

Senator COHEN. If you've got an exchange rate differential, is that "unreasonable, unjustifiable?"

Mr. DEKIEFFER. I would say, on the fact of it, not. But it could certainly have an adverse impact here. That's the reason I would probably suggest section 201.

Senator COHEN. Exactly. But then you're suggesting, let's look at section 301, and 301 doesn't apply.

Mr. DEKIEFFER. Not if you look exclusively at the exchange rate differential. Unless it's artifically generated, it probably would not be applicable under section 301.

But there are a number of other factors and some of the factors that were brought out by witnesses earlier this morning, not just in potatoes but in some of the other types of products that are involved, that might very well be actionable under section 301 if they're discriminatory, and if they tend to distort trade.

Not only the United States but the Canadians themselves have agreed to international standards in areas like the Subsidies Code. So it's not merely a matter of unilaterally imposing our will on the Canadians. They've agreed to these rules, too.

Senator COHEN. Let me just say for the record that your recommendation is that Mrs. Kelley explore section 201 as one option, along with countervailing duties, along with 301, 332, and, suppose, antidumping. There are a whole list of things we could look at.

But the problem is, she's already been advised. I think she went to the various agencies, and they said countervailing duties and not 201.

Mr. DEKIEFFER. As I understood Mrs. Kelley's testimony—and I've spoken with her very briefly—one of the things I believe that she could do, and I hope that she will, is to come to our office and discuss it. We'd be more than happy to show her all the options she has—the pluses and minuses—and frankly one of the minuses that you pointed out this morning is costs. They are or they can be significant. And the costs of bringing these different types of proceedings are not the same.

Section 301 cases, for instance, almost always will be much less expensive than a 201 case.

Senator COHEN. But a higher burden.

Mr. DEKIEFFER. There is a different burden. Section 301 cases are almost always conducted in an international context. Section 201 cases are essentially a domestic proceeding.

Countervailing duty and antidumping cases are extremely legalistic, because you have simultaneous proceedings going on at the Department of Commerce and the International Trade Commission, with statutory deadlines that are unique in U.S. law. There are at least nine different statutory deadlines within a 6- to 13-month period. The attorneys involved literally have to spend full-time on the cases.

Section 301 is essentially done by the Government. It's an international proceeding conducted most often in the context of the GATT where the costs to the actual litigant are rather small.

Senator COHEN. As I'm sitting here listening to your proposals—and I am not challenging the wisdom of them—but they remind me of studies that the National Highway Transportation Safety Board conducted where a person approaches an intersection. If there's a blizzard of signs at that intersection, it produces mass confusion and disorientation as opposed to a simple stop sign or a yield sign. That's what I think they must go through.

They're approaching the intersection, and we've got about six or seven different remedies, each of which is different, each of which has a different burden, each of which has international repercussions or complications as opposed to domestic considerations. As a result, they go running around from remedy to remedy and end up with nothing.

Mr. DEKIEFFER. Senator, the U.S. Trade Representative has authority and responsibility for only administering one of these, namely section 301. But we do have oversight responsibility for a number of others.

It's perfectly proper for this subcommittee to insist that the USTR in general, and the General Counsel's office, in particular, be made answerable to giving people who come in advice as to what their options are. Frankly, we are not going to put up stop lights or yield signs when there's an unfair trade practice involved. I'd prefer different shades of green. We'll be glad to advise people as to how they can best do this in the cheapest possible way.

The Congress has seen fit to pass at least nine different laws with respect to different remedies that people can take. Congress obviously had different things in mind when it passed these laws, and we'll try to do our best to interpret what you meant.

Mr. LANDE. Mr. Chairman, the USTR prides itself, given the small size of the office, on the fact that we do provide facilities for people who wish to meet with our staff, whether they be in Mr. deKieffer's office or my office, which is in bilateral affairs.

I do not believe that Mrs. Kelley has come to my office. My staff has no record of her coming in to discuss the problems raised today.

Senator COHEN. She's sitting in the back of the room. I'm going to make sure before she leaves that she comes in and sees you.

Mr. LANDE. That's what I want to make sure of in this area, because there are both the remedies, and there is sometimes the ability to negotiate things without remedies.

Senator COHEN. What they have are statutory remedies which are virtually unenforceable. That's a paper promise. It's a mechanism saying, "Here is the orderly process of law," when in fact she's got to go out and dig up facts; she's got to dig up statistics; she's got to go hire an economist at the University of Maine who says, "I can't make anything out of this," and then she comes to you and you say, "Your remedy is countervailing duty."

Mr. LANDE. I am not a lawyer.

Senator COHEN. She's not either.

Mr. LANDE. The point I'm making is that these laws have come through Congress, and there are good reasons why we have nine laws. I am not in any way suggesting that we attempt to consolidate everything into one law, which obviously has an advantage. I'm only suggesting that we hope very much to meet Mrs. Kelley, and perhaps through such a meeting as we could explain how to get through this maze, as you have described it. It is my hope that we can provide the kind of relief that is appropriate in this situation.

You also raised the question of exchange rates. That's a very hard one to deal with, because if a country is not manipulating the exchange rate, which well might come under section 301 as Don deKeiffer described, is, what do you do if a country has experienced competitive disadvantages? Canada, for example, is facing a problem where their currency is going down, and they're not all that excited about it because it has some negative effects. How do you deal in a free trade situation with corporate competitive advantages that come to a particular industry or competitive disadvantages by devaluation?

Usually that represents an income transfer which is basically negative for the country. We have responded and said, "There's an escape clause." We look at that and say, "It's not unfair."

Senator COHEN. As negative as it might be to have that kind of differential in exchange rates, I think you indicated they have roughly a trade imbalance of $6.6 billion in 1980, so it hasn't been working to all that much detriment.

Mr. LANDE. But if we remove energy from that and if we take raw materials out of that total and look at the balance in the manufacturing trades where it well might vary more on price, it well might reflect this kind of competitive advantage that we have in the United States, given our higher productivity, as well as some of the other advantages we have.

It is something very much worth looking at. We would resent it if the Japanese, while the dollar was devalued, said: "Wait a minute; the U.S. currency is now being devalued. We must do something because we do not want to lose the so-called competitive advantages we've had in the past."

Obviously, we would resent that action on demand by a foreign government.

For Mrs. Kelley, specifically, the main recommendation we can give her at this time is to come in and begin working with us on a solution. Second, in terms of the more general issue, is one which does involve some more study by the United States, by the Executive, and by the Congress on how we deal with the very unfortunate microeffects of the devaluation of another currency.

Senator COHEN. I will just point out, it's not simply the monetary exchange differential. If you take that 17 cents or that 20 cents and you add on top of it a subsidy, you can come in and say, "Well, it's principally the exchange rate." But there's that little millimeter of advantage that keeps putting them under. And that's a very hard thing to prove.

If you're going to say: "It's principally the exchange rate, and we can't negotiate that," then let's talk about a credit program. We've got to do something.

Now I'm not here to chastise anybody. I'm trying to find out what I can do to represent the people in the State of Maine, New England, and the border States to find a remedy, using examples in the past where there has been for the most part no effective remedy. That's what I'm trying to find out. What would you recommend?

Mrs. Kelley, you're going to meet with Mr. Brady's office. Mr. Lande has offered to meet with you, and Mr. deKieffer. You've got a wealth of information available to you today.

Mr. Smith, I know you're anxious to get out of here, but before we finish up, I'd like to come back and talk about Canada. I really haven't touched upon this yet, but I submit to you that just as we talk in this country about a Frost Belt/Sun Belt dichotomy in terms of Federal programs and policies, the same sort of policies also exist with respect to Canada.

If you look at those MTN negotiations, you will find that those items which have been negotiated favorably benefit the South in terms of those who produce citrus fruits, and that those items which are not produced in Canada which Canada wants most are the ones in which we were able to keep a very beneficial rate. Those industries located in the Northeast in the frost belt States, where we have potatoes or apples or maple syrup, are the ones where we've been put at a disadvantage.

Save that debate for another time when we have more time.

But I would submit to you that there is an inherent industrial bias toward the big companies and the big producers who produce those products in the warm States, where they're not produced in Canada. They've enjoyed an advantage to the detriment of those industries in the Northeast.

Now let me come back to the horticultural fast track system that Canada has, Mr. Smith.

My understanding is that they have a so-called fast track surtax system which has never yet been imposed. Nonetheless, would you not agree that the very existence of such legislation has an impact upon those who might import U.S. products?

Mr. SMITH. You know, we're concerned about it. It's true, I guess, that it had been imposed temporarily—and it hasn't been for a period now. Our feeling would be, if they moved in that direction, we'd have some concerns about that.

Senator COHEN. Would you recommend, at least in terms of equity, that the United States have the ability to put a surtax on in those cases where it finds a domestic industry to be imperiled?

Mr. SMITH. I think at this point that the situation is they have one in place that they aren't using.

Senator COHEN. But if you have a gun in your holster and you don't use it, it puts you at an advantage over a fellow who's unarmed; doesn't it?

Mr. **Smith.** I think if they start using it——

Senator **Cohen.** No; that's not what I'm asking. I'm saying the very presence of that weapon on that person, that country, gives that country an advantage, even though it's never withdrawn from the holster. Would you not agree with that? I don't want to pursue the metaphor. We have too much violence anyway.

What I'm suggesting is that the very existence of that capability has an inherent advantage, whether or not it's used. What I would like to know is, what would be the objection of the United States saying that we want to strap on that weapon as well? We don't intend to use it, but in the event that we find that domestic industries are, in fact, in peril, we just might use it.

Mr. **Smith.** I think we'd be getting into an area that wouldn't be too productive.

Senator **Cohen.** Why not?

Mr. **Smith.** I think the key is if Canada moved in the direction of the fast track, we'd have to evaluate it at that time.

Senator **Cohen.** But you're saying we'd have to wait until they use it. I'm saying you don't have to wait until they use it. Its very existence imposes an additional burden.

Mr. **Smith.** I guess my question is what purpose would that accomplish?

Senator **Cohen.** Let me tell you what the purpose is going to be. I've heard witness after witness come before us and talk about the need for attitudinal changes. I think if the Canadian Government were aware of the fact that this Congress is not going to tolerate the kind of complex, costly, time consuming, and illusory remedies that have been presented to date for industries, and that finally we're going to be sensitized to the need to start looking at a more equitable system, and that we're going to pass fast track surtax legislation to put us in the same bargaining position that our Canadian counterparts have, I think it would be a tremendous signal to be sending to the Canadians.

Mr. **Smith.** I think the implication of that is that somehow the fast track system is causing us a problem. I might indicate that our horticultural trade, which this mainly applies to, is something like 10 to 1 in our favor at this time. I can't see that we'd be much served by going that route. I think we have to clearly let them know that if they move in that direction there would be some consequences.

Senator **Cohen.** You keep looking at the overall horticultural balance. What I'm suggesting to you is, go back to the MTN negotiations and you find they've threatened to put up barriers to our horticultural products. Do you really believe they're serious, when that's the one thing that they need? Those are the several things they need and don't produce themselves, and we said, "We can't have that. We'd better negotiate away potatoes and let those citrus fruits keep flowing through across the borders."

I think they clearly out negotiated us on that by threatening to put up tariff barriers to their consumers which they couldn't justify and on which they wouldn't have gone forward. I'm submitting to you that our trade negotiations have favored our large citrus fruit producers in the south and in the west and have sacrificed the industries in the Northeast. I think the evidence is almost incontrovertible on that subject.

Mr. SMITH. I'm not here to defend the MTN negotiations. It's true that there were some tariffs that were negotiated. I think it's also a fact that clearly, when you get into negotiations with Canada on commodities that they don't produce, it's going to be easier for them to negotiate entry.

I still maintain, though, that if there was some purpose to be served by going that route, we might feel differently about it. But at this point, quite frankly, from our perspective, we don't think that that would help solve the problem.

Senator COHEN. You said initially that you were concerned about the existence of the fast track system.

Mr. SMITH. We are concerned about the existence of it. We're really concerned about the fact that they might use it. We have to be very firm on that.

Senator COHEN. Why are you concerned about its existence? It's the threat of its use; right?

Mr. SMITH. We'd rather not have it; yes.

Senator COHEN. Mr. Lande?

Mr. LANDE. Concerning the balance, vis-a-vis Maine, in the MTN, we prepared a document 2 years ago, which we will be happy to provide to you on Maine's benefits from the MTN. Having looked at the document, I'm going to state it doesn't really look into the import-export balance. It doesn't get into the micro area as you have described it.

Senator COHEN. It gets down to $300,000 was the calculated risk to the Maine industry. It turned out to be $8 million.

Mr. LANDE. I don't think we're here, as I said earlier, to defend those static analysis figures from 2 years ago.

Senator COHEN. You see, I do, because I think that there's a case in which I can show an estimation of impact upon an industry which grossly underestimated the impact. Now you've got Dottie Kelley here trying to run around to the various little cubbyholes trying to find out where she can get relief. They said, "Come in and talk to us." And 6 months will go by and I've still got a problem with an industry. What I'm suggesting to Mr. Smith is that we're dealing with perishable products in many instances; time is of the essence, and we're losing.

Mr. SMITH. Senator, I think, you know, one of the key things when we get into these problems is to really try to show the causal effects. I maintain that right now there's been less than a half-cent reduction in the duty on potatoes coming in from Maine. There is going to be a sizable reduction, but it's over, I think, an 8-year period. Right now you have about a half-cent reduction, and honestly, I think it's difficult to attribute that shift in trade to a half-cent difference in the duty—in fact, in 1982, the reduction in duties from 37 cents to 36.5 cents.

No, I don't discount that this isn't going to help the situation, I think as you go down the line. But to attribute that shift in trade to the duty reductions that were negotiated in the MTN, regardless of whether they're right or wrong, I don't think is the cause. I think it's important to try to get right at the root causes.

Senator COHEN. OK. You see the reason I asked the question initially? Mr. Lande is saying now what our priority items were in those MTN negotiations. There's a reason for that. I want to compare it with the Canadian's items of priorities. I think that you'll find potatoes were a very high priority item with them. Now that, coupled with a 5-year plan to enhance their export program, gives you some indication as to where they're placing their priorities, and where we are not. That's why I'm submitting to you that we've practically written off the northeast in terms of those trade negotiations. We're looking at the bigger industries, not the smaller industries. We're looking at where the big dollars are and not the small dollars, in terms of our overall trade imbalance. I think that's the harsh reality of it.

Mr. SMITH. I would agree that if you look down the road, you could make that analogy. I'm saying right now, the problem with the larger imports of potatoes from Maine, I don't think you can attribute that in any degree to that reduction in tariffs.

Senator COHEN. But you take the 17 cents and I'll add another half cent on top of that. I can ask you, why is it that we've got all these calls coming from exporters who are quoting South American orders? They are constantly underbid, they are often asked if they are going to get payment in Canadian dollars. Now, you tell me, it's the Canadian price differential, obviously, but doesn't another half cent on top of that make it that much more attractive?

Mr. SMITH. It doesn't help. But I think that exchange rate goes a long way to explaining that.

Senator COHEN. If you promise me that you're going to undertake to sponsor, in this administration, some sort of credit program, it may not do the job, but it's a step.

Mr. LANDE. According to our study, one third of the total employment in Maine in the context of the MTN is in the leather and leather products industry; one third is in the lumber and wood products industry. Leather and leather products were largely left out of the MTN for the very reason that the industry was not in a position to sustain import reductions. Lumber and wood products were one area where we did attain our objective of seeing Canadian tariff rates harmonized with our own rate. Timber or lumber went down 5 percent to 3 percent; soft wood lumber was reduced from 5 percent to 3 percent; veneers were reduced from 10 percent to 3 percent. These are Canadian reductions.

There's another problem in lumber that's being brought to our attention. In fact, we've had discussions with some of the witnesses who have appeared here. This concerns the stumpage problem. The reason why it is important to deal with some of these other products in the context of this hearing is that if there have been agricultural products where Maine has an ability to export to Canada and where there is a possibility of giving trade relief for these products, that is, through negotiation with Canada, we should be made aware of that because it is possible that in our macro approach we may not have looked at individual products of interest to Maine.

There exists section 124 authority, which does provide us with an ability to negotiate. Extension of the section 124 authority is currently being considered by the Congress, because it is due to expire on January 3, 1982. The point that I'm trying to make here isn't to defend or not defend what we did in the MTN but to state that if there are products in Maine for which we did not gain access into Canada where there are opportunities to export those items, we would be happy to make contact with your staff or the committee or directly with the horticultural people.

The fact that it will be difficult should not dissuade us from making the effort. That's why, again, the main point of this discussion isn't what we did in the past but what we can do in the future to be responsive.

Senator COHEN. And I appreciate that. And frankly, the reason we go back to the past is that if you ignore the past, you can't ring the bells of the future. We've got to do that with the ropes of the past. So that's the whole point of going over what has happened historically. And hopefully, what will come out of these hearings is something productive.

I certainly don't have the answers. I look to you as the experts in the field, and all I can do, as a layman myself, is to ask, "What in the world is going on now?" Why aren't we sensitive to this fact when the CBO studies come out and say these MTN negotiations will have a significant impact on unemployment in the Northeast? Apparently that was taken into account and discounted in terms of other benefits we would achieve through other products in other areas of the country. I maintain this is quite consistent with the whole pattern of population shift and interest shift, big companies versus small companies, border States versus the big food producers.

Now, that's the reality of it, and I appreciate that. Now the question is: What do I do? What if we don't take into account certain products? Take the top half of the State of Maine: there are two things in that State, my State—Loring Air Force Base and potatoes. If either one go, you've written off an entire half of the State, which would have a tremendous repercussion and impact on the rest of the State. Now, I am simply not in a position to say, that in the interests of overall macroeconomic interests, California, Texas, and the South, we just have to sacrifice up in the Frost Belt part of our country. I can't do that and won't do that. So that's why I'm holding these hearings, because I think that we can't ignore regional disparities. We can't ignore entire industries whether it's fishing or potatoes or forest products or maple syrup. We've got to respond with some measure of equity, and that equity is not there right now.

Mr. Smith, I know they're waiting for you elsewhere, so you may be excused, as such. Mr. Fry, we have not had a chance to talk. I know that you don't have any prepared statement, but perhaps I should just throw a couple at you, unless someone else wants to respond before I turn to Mr. Fry.

Mr. FRY. There is just one thing I'd like to add. You used the issue of regional industry, and if these parties that are interested in bringing petitions cannot develop that information concerning regional industry, if they will just identify what they think the region consists of by listing the States in the region, the commission will pick up the ball and collect the data during the course of its investigation that will permit us to make a determination on regional industry.

Senator **Cohen**. Let me go to some of the countervailing-duty petitions that have been filed by the fishing industry, in particular. The ITC in the past has cited significant reduction in the size of bounties provided by the Canadians as grounds for finding no injury was inflicted upon the domestic industry. The question is: What relevance does the size of the bounty received by a foreign producer have to the question of whether or not the domestic industry has been injured?

Mr. **Fry**. I think, Mr. Chairman, that that's something that each individual Commissioner would have to sort out when he's making his or her decision in an individual case.

Senator **Cohen**. I'm talking about the size of the bounty under our framework of law. You, yourself, contradicted Mr. Smith, saying it's not the causal connection between the subsidy and the injury, but rather, the importation of that product with a resulting injury. You said that you simply have to show in the countervailing-duty action the existence of a subsidy. What difference does the size of a subsidy have to make?

Mr. **Fry**. I think it's one of many elements that would be considered by the Commission, and I believe that individual Commissioners would attach varying degrees of importance to the actual size of the subsidy. I know that in the decisions on the fish cases, they have referred to the fact that the subsidies, as reported to us by the administering authority, have generally been in the range of 1 to 3 percent. They are small subsidies. We do not try to look behind the advice received from the administering authority; we accept their advice as to the amount of the subsidy and make no effort to try to confirm it. They have the expertise in that area and we do not. So we are bound by what they report to us.

Senator **Cohen**. Let me go over some of the items that were testified to here earlier. A number of small industries have testified on the burdens of proving causation, injury, in a countervailing-duty case. Let me list to you—a report was filed in one case by the Commission—the major categories of data which were unknown or unavailable, which included: One, the absence of price comparisons for most major fish products; two, the absence of profit and loss figures from the New England industry because many in the industry simply don't keep that information; and three, the absence of any records of the amount of Canadian imports which enter the Boston auction, an auction which is generally a price leader in New England for groundfish.

Furthermore, you've got experienced economists who say that understanding the market mechanisms in the groundfish market are limited, at best, making proof of any adverse pricing effects next to impossible. So what do they do when they come in for a countervailing-duty case? No information is available, and the market itself is difficult to understand. You've heard Mr. Salisbury say if they come in with his fish and there are six Canadian trucks at the dock, to forget about it, because the price is going to be down. What do we do with that kind of a mechanism?

Mr. **Fry**. I think the Commission has, without exception, been very lenient in accepting petitions and initiating investigations. A lot of the petitions that we receive do not fully provide the information that is called for in our rules and regulations, but we're anxious to be as responsive as we can. In most instances, if there is a reasonable presentation, we will institute an investigation. Then it is our responsibility to try and develop the best case we can during the course of the investigation.

Now, in the fish cases, we were handicapped by the inability or the unwillingness of the fishboat operators to provide certain information that is very important in establishing injury. We needed something on their profit-and-loss experience, and, as I recall, despite repeated efforts by the Commission staff to obtain such information, we just didn't get an adequate response.

Now, we do have the subpena authority and we could use that. But in this instance, we would be talking about the mass issuance of subpenas to many, many different enterprises. So we did not avail ourselves of that authority. And besides, it's doubtful that we could have enforced them and gotten information within the required period that we have to make these determinations.

Senator COHEN. The statistics are that we import nearly two-thirds, or more than 60 percent, of all the fish caught. We import them, and they're caught right near our own waters.

If you take the fact that we import nearly two-thirds of our fish and you couple that with a nine-page list of all the Canadian programs that subsidize, reinforce, enhance, and expand the ability of their fishermen to compete, isn't that proof enough of a direct causal connection between a government policy toward its particular industry, the fishing industry, resulting in damage to the New England domestic industry? Isn't it entitled to some kind of relief?

Now, why do we have to go through and subpena Mr. Salisbury's tax records to find out what he made last year, and say, "Well, you made $10,000 last year, and you're down to $6,000 this year. Do you really think you can show that the price they were getting at the dock—on scallops, or haddock, or whatever—was lower because of imports? You can't prove that, Mr. Salisbury. Therefore you're not entitled to any relief."

Mr. FRY. Financial information is given a great deal of weight by the Commission, in arriving at its decision. And if the people who are to be the beneficiaries of the issuance of a countervailing duty order are not forthcoming, I think it does detract from their case.

Senator COHEN. What weight has the ITC given these programs?

Mr. EASTON. Senator, my name is Edward Easton, of the General Counsel's Office.

The Commission won't give that document any weight that the Department of Commerce hasn't given it. We do not inquire into foreign subsidy programs independently.

What the Commission does is to look at injury in U.S. markets, from imports. And I think one of the problems we're having here with these cases is that the types of small, regional industries that have testified here have difficulty generating the sort of information that the Government, in turn, is geared up to look at.

But these are record proceedings, and the damage—the material injury, in terms of the statutes, has to be documented.

Senator COHEN. All right.

Mr. Fry, let me just quote some ITC regulations to you:

> The Commission shall also consider the nature of the subsidy and the effects likely to be caused by the subsidy.

Mr. **Fry**. I think, sir, that the Commissioners are interested in whether the subsidy is an export-oriented subsidy—I suppose you would say that's the worst kind—but I don't think that they endeavor to do anything but look at what the Commerce Department reports to them, or the administering authority.

Senator **Cohen**. Export market development programs? Grants up to 50 percent of the costs repayable of export sales as a result of entering new markets or expanding existing markets, by undertaking foreign capital projects? Visiting trade fairs?

Mr. **Fry**. I think if the Commerce Department reports that to us, they and the Commission would say this is a bad one.

Senator **Cohen**. But why isn't ITC looking at an export market development program by the Canadians, saying: "Forget about the subsidies that go for shipbuilding, fishing, unemployment insurance benefits, manpower training, fisheries loan programs, vessel insurance," and on and on and on. "Forget about those, they're domestic and we'll give those to Commerce. What we're concerned about is what they're doing to their export development programs."

And now I'm citing to you another program that they have. And you're saying to us: "Well, Commerce is going to tell us."

Mr. **Fry**. Right. When Commerce tells us what they find in the way of subsidies, we include in our report to the Commission a section that describes the subsidies and lists the amount of the subsidies, for consideration by the Commission. And we invariably indicate whether or not they might be export-oriented subsidies. So the Commission has that factual background when they make their determination.

Mr. **Easton**. Senator, the reason for that regulation is because the statute requires us to take into account the nature of a foreign subsidy in making a threat of injury determination. But again, the information that we would take into account would be the information that the Department of Commerce gave us.

Senator **Cohen**. Mr. Brady, you'd better start talking more to ITC.

Mr. **Brady**. I don't think so, Mr. Chairman.

We make the determination of whether that list of items are subsidies or not, and we will do that. As a matter of fact, we'll sit down with your people and you can be assured that we will go through that. We will send out the questionnaires; we will verify those questionnaires; and we will come to grips with whether the information that we've gathered, is good, hard information. And then we send it over to them for determination.

What he's saying he's got to do is basically do the same thing in reverse, with regard to the domestic industry. He then has to assess "injury." And I gather, because of the recordkeeping, et cetera, of some of the industries we're talking about, such information is sparse. Therefore, it doesn't fit into the agreed-upon framework that exists at the ITC.

Senator **Cohen**. Do you think that they have a cash register, an IBM?

Mr. FRY. No, sir. But in the last fish investigation, we had such poor responses in the prior investigations that we made a really concerted effort. We tried to tailor the profit and loss sector of the questionnaire to the barest minimum information. We tried to make it track what we thought would be information that could be picked off of their income tax returns.

We thought we were going the extra mile in making it easy for the fishing boat operators to respond. But the response rate in the most recent investigation I don't think was any better than in the prior investigation.

Senator COHEN. Let me ask you this. I know the experience of trying to draw any information out of a fisherman—with all due respect, Jim—or even farmers, for that matter, in the New England area. They don't talk a good deal and they keep pretty much to themselves. And it's rare that you can get two fishermen to agree on anything, other than survival of the industry itself.

But I assume that they are concerned, as well, that this information become a matter of public record. But not on an individual basis, no more than I want to have my returns, or anybody else's, become a matter of public record which is then released to the press.

If a mechanism is developed where a good measure of privacy is protected by the individual fishermen or farmers, and you get the totality of the industry's income without getting into specifics of individual fishermen, is that satisfactory, as far as ITC is concerned? Can it be, in fact, verified on an industrywide basis, without getting into disclosure of individual tax returns?

Mr. EASTON. We've had those safeguards in operation for years. The only confidential information that a petitioner could give us that would be liable to be seen by anyone, other than the government officials or a reviewing court, would be pricing information that might be made available under strict protective order provisions that are in the law for both antidumping and countervailing duty procedures.

Otherwise, all confidential information collected by the ITC, without exception, is kept confidential, and only the employees of the ITC and the Court of International Trade and the Court of Customs and Patent Appeal employees would ever see it.

Senator COHEN. Now the Department of Commerce is authorized to suspend an investigation into unfair trade practices, under certain circumstances, if it accepts an agreement of a foreign government to eliminate subsidies on the condition that that agreement itself will eliminate completely the injurious effect of the exports to the United States. The ITC is authorized to review the agreements, to determine whether or not in fact they will eliminate such adverse effects. What I want to know is: How do you go about doing this?

Mr. FRY. We've never done it, sir.

Mr. EASTON. We've never been asked to do it.

Senator COHEN. Were you here today when some of the witnesses testified to the fact that—I think that Mr. Brady said it—even in a case where you can demonstrably show that a subsidy has contributed—I know they don't have to do that, but assuming they could show a subsidy in contributing to the impact upon domestic industry—you suddently have the Canadians terminating it, but the effect of it lasts for the lifetime of the ship.

How do you deal with those kinds of cases?

Mr. **Easton**. Well, structurally that deals with the remedy that's provided for in the law. The law provides for adding a special duty on an import of merchandise. If, in fact, that duty is calculated by reference to a subsidy program and there's no longer any subsidy program to calculate the duty against, there wouldn't be any duty collected.

Senator **Cohen**. I said Mr. Brady. I meant Mr. Bradley.

But, let me ask you: Assume you have a subsidy program which is designed to build a bigger and better boat, and that boat's lifetime is 20 years, and the program is in effect for 5 years. If you still have a 15-year life expectancy on the boat, don't you in fact have the existence of a subsidy for that 15-year period of time—I mean as a reality—which our people have to compete with?

Mr. **Brady**. Mr. Chairman, I believe we calculate that in our statistics. In other words, the mere suspension of that kind of a thing would not eliminate it.

Senator **Cohen**. That has not happened in the past? In the three major cases that have come before on countervailing duties they found that the subsidy had been terminated and therefore that there was no cause of action as such.

Mr. **Brady**. I can assure you that if you were to ask the Europeans—now I'm talking about this administration's implementation of this law—if you were to ask the Europeans with regard to the questionnaires we sent to them when they were seeking preclearances under the steel trigger price mechanism, that they were quite concerned about the retroactive nature of the subsidies that we thought they had applied.

Senator **Cohen**. I'm going to try and terminate this pain and suffering that you've endured for this length of time. But one final question.

It appears to me, at least, that the cost and complexities that are imposed upon small firms and small industries are enormous. What kind of recomendations would you make to alleviate that burden for the small firms?

Mr. **deKieffer**. Senator, as I mentioned a moment ago, there are two or three things that can be done.

One is that small firms and small industries, either through their associations or directly, can approach the various Government agencies—and I think you've seen today a great deal of willingness of the agencies to try to provide the kind of advice that's necessary to receive along these lines.

Second, our agency in particular is more than willing—and certainly in the past, since March, has provided advice to over 37 different industry groups—as to how they might proceed, whether or not our own agency was in charge of administering them.

Finally, I think that it might be worth your while if either this committee or the Senate Finance Committee, or other appropriate agencies on the Hill, look at the costs that have been imposed upon small business and small industries by the acts themselves.

I think you correctly pointed out the problem that small firms and small industries have in deciding which way to go. Congress, not the administration, not USTR—or any of the people at this table—have devised these various stop and go lights. Certainly, making them more legalistic and more complex has added legal costs, and I believe that it would be at least appropriate for someone here to investigate whether or not those added costs have precluded small businesses from pursuing their rights under the law.

Perhaps the Equal Access to Justice Act would be a good starting point. It certainly would be a fruitful endeavor, because it's very clear that the Finance Committee and the Senate itself believe that the 1979 Trade Agreements Act amendments were designed to protect American business, not to harass them. They were designed to protect American small businesses and small industries from the arbitrary and capricious sorts of decisions that were allegedly being made by the administering agencies in the past, and to give them the kind of legal protection that the Senate felt was necessary.

Those kinds of protection, though, are expensive, and no provision was made in the Trade Agreements Act for enabling smaller businesses and smaller enterprises to be able to afford these kinds of things.

In sum, Senator, I believe that this administration wants to get away from the idea that small business and the Government have an adversary relationship. We don't.

I want to stress that this administration, in particular the U.S. Trade Representative, does not want to force small businesses to jump through a series of flaming hoops before they can get the kind of import relief that they're entitled to under the law. The law is, however, in certain respects very explicit, and I think that it would be a fruitful area for this committee to examine the law to see if there are ways of at least reducing the financial burden on smaller industries in bringing these types of proceedings.

In the meantime, I want to assure you on behalf of USTR that we're more than happy and willing and anxious to assist these companies and these industries in receiving the kinds of relief to which they're legally entitled.

Senator COHEN. Thank you, Mr. deKieffer.

Mr. Lande?

Mr. LANDE. I would just like to add two points:

First, very often importers have a very similar complaint concerning the operation of our law. I remember there was one question with respect to bicycle tubes, where developing countries pointed out that there was a subsidy complaint, and an antidumping complaint. There was also a complaint that it shouldn't have been in under a GSP preference program; there was an escape clause complaint, there were five or six complaints, in addition to those four, which caused these importers great difficulty.

Again, it's an issue with which it is very hard to deal, because we do try to identify unfair trade practices. That's extremely important: We must always identify the "cause and effect" of whatever action we're talking about.

I think it does involve some study. Congress did not intentionally legislate roadblocks or red lights, either to their constituents or to free trade. Different kinds of motives, different kinds of problems led to a variety of laws.

Again, there's not going to be an easy answer. I didn't want to blame Congress for it. It's just something that comes out.

Senator COHEN. I'm perfectly prepared, on behalf of my colleagues, to accept their mistakes.

Mr. LANDE. The Government seems like a colossus to those outside Washington and one often doesn't know how to approach it. Perhaps working through committee staffs—and this has been one of the very positive effects, at least in terms of our office's relationship with your staff—in the particular examples we have given—we would urge that people come to USTR and try to talk over the problems, because it is not an adverserial relationship; it's a cooperative relationship. If we can help them through the maze, we'd be extremely happy to do it.

I consider this hearing to be among the best I have attended. And I would hope very much that we could work with the Mrs. Kelleys and the other people who have appeared here today, and provide some assistance.

Senator COHEN. Mr. Lande, thank you very much.

Let me just say that it appears as a colossus not only to the average citizen; it's a colossus to me. I look at section 701, section 731, section 201 of the Trade Act, section 301 of the Trade Act, section 332 of the Tariff Act, adjustment assistance, section 22, and I don't know where to turn. I wouldn't know where to advise Mrs. Kelley to turn.

This has been an educational experience for me. We do, as legislators, contribute to part of the problem, by making it so complex. Hopefully, we can accept Thoreau's advice, which says: "Our lives have become cluttered with detail. Simplify. Simplify." I think that's the goal of the Reagan administration. I hope it will become a goal of this Congress, as well.

Mr. Brady?

Mr. BRADY. Mr. Chairman, I also want to compliment you for the hearings, because I think that they have had and will continue to have a very positive effect.

I can tell you that we have not fully implemented the transfer of the import program from Treasury. We still have a lot of meshing of the original separate staffs to do, perhaps even some organizational changes.

These hearings are useful, at least for me, in pointing out what we have to do and what we don't have to do, particularly as concerns small industries. It may be that I can take some actions in my own organization that will have an immediate effect—such as putting out a very small, very simple document for someone who is coming in, seeking help, that will give them something to read. This would be in addition to the counseling service we provide.

I think also, quite obviously, the industry should be aware of what kinds of records they need to prove injury, once they get to the International Trade Commission. That's an educational process that I think we can help them understand.

I think the last major problem, without touching on any legislative changes that may be required, is of course the bureaucracy itself. The fact that somebody might come to my office and say: "Oh, that belongs in Agriculture, it belongs in the ITC, or it belongs in STR"—although we would probably not do the latter, because the working relationship between STR and Commerce on these issues is very, very close.

But it seems to me that we have a responsibility not only to send somebody to another agency, but to make sure that they get through the door, and that their brief is picked up at that point.

So, I think it is useful. I think we'll carry through. And I commend you for what you've done, because I think it will produce some results.

Senator COHEN. Thank you very much, all of you. I do appreciate the sincerity and the candor, frankly, of all of you. It is refreshing.

And I must say to the people who are here from Maine, that I have found in my own experience with this administration that the goals and the level of cooperation have been extraordinary.

I did not want to use this forum for any kind of browbeating, but rather to make inquiries in a civil way. And again, I come back to Mr. Salisbury. I was so impressed with his calmness, civility, in a forum which is designed to reconcile these problems. This is the best test of our system, as opposed to seeing potato blockades up in northern Maine, or lobstermen carrying shotguns and rifles, trying to protect their own livelihoods.

This is where we have to reconcile the problems that we face as a civilized nation, with our counterparts and our good friends on the northern border.

So, I appreciate the testimony of all of you. It's been very productive and I think it will bode well for the future.

[The prepared statements of Mr. Brady, Mr. Lande (with attachment), and Mr. Smith follow:]

PREPARED STATEMENT OF LAWRENCE J. BRADY

Mr. Chairman, it is an honor and a pleasure to appear before the Subcommittee to discuss the impact of United States Canadian trade policies on small, border state industries. My statement will outline the Department of Commerce's responsibilities to administer the countervailing duty and anti-dumping laws under the Tariff Act of 1930, as amended. I will then discuss what steps we are taking to ensure that small, United States border companies are not being unfairly disadvantaged by Canadian imports.

Before we begin, I would like to add that I am a resident of New Hampshire, which borders your state and Canada, and I share your concerns for our regions' businessmen.

Secretary Baldrige and Under Secretary Olmer have promised you and the Congress that they will vigorously enforce the countervailing duty and anti-dumping statutes. I also assure you that I will carry out their promise and that I will do so in a manner which does not favor particular industries or certain regions of the country.

Small businesses are the lifeblood of this country, and we will continue to assist them in determining if they are being injured by unfair trade practices. In fact, we consider the assistance we give them a special obligation. The process of bringing a petition and seeing it through to a successful conclusion is not easy for a small business. The statutes now require three decisions by Commerce and two injury hearings at the International Trade Commission.

United States - Canada Trade

United States - Canada trade is the most extensive of any two countries in the world. In 1980, our two-way trade exceeded $77 billion, accounting for over 18 percent of U.S. world trade and 70 percent of Canadian world trade. In 1980, our trade deficit with Canada was $6.6 billion.

Much of our economic interdependence with Canada is helpful to us politically and economically. The United States and Canadian governments must, however, be cautious of how our two-way trade effects our respective border industries. In border trade, there are not obstacles such as distance or oceans which naturally protect domestic industries. In addition, government policies in support of their exporters have more immediate impact on bordering countries.

In this regard, we are very concerned by Canada's increasing government intervention in the economy. For example, Canada is vigorously pursuing policies of export expansion and import substitution. The United States Government has discussed these concerns with Canada in high-level bilateral talks. If these efforts are not successful, however, we have laws to protect our industries which may be adversely affected if these Canadian policies are manifested into unfair trade practices.

Department of Commerce Responsibilities to Administer the Antidumping and Countervaling Duty Laws

The International Trade Administration has the responsibility for enforcing the antidumping duty and countervailing duty laws. Both of these laws can be of important help to small U.S. border industries which are suffering financial harm from increasing Canadian exports.

Under the countervailing duty statute, U.S. companies who believe they are being injured may petition for the assessment of countervailing duties on exports which receive Canadian Government subsidies. If a U.S. company, particularly a smaller company with limited resources, has reason to believe that its Canadian competitors have received provincial or Federal Government assistance, it may call on our Office of Investigations for help in formulating a countervailing duty petition. Using information from the petitioner, relevant subsidy information from past investigations, or from our subsidies library, we will advise and assist the company in its efforts to file a petition in proper form. If necessary, Office of Investigations personnel will visit the company or its trade association to clarify the filing requirements and the legal and technical aspects of a countervailing duty investigation. In particular, we apprise the company or the trade association of the requirement to demonstrate injury before the International Trade Commission as a negative preliminary ITC determination would terminate the case after 45 days.

Countervailing Duty Procedures

Once a company has filed a countervailing duty petition, it could conceivably receive initial relief within 85 days of filing.

What happens is as follows:

> First, we determine that a petition is in proper form. Second, we formally initiate an investigation and present to the Canadian Government a detailed questionnaire. We design the questionnaire to determine whether or not there is a subsidy or a "bounty or grant" 1/ and to quantify the value of the subsidies. In general we would regard any government program or private action which is preferential in nature and which benefits a specific enterprise or industry as a potential subsidy.

1/ The term "bounty or grant" as used in the Trade Act of 1930, as amended, is synonomous with the term "subsidy" as used in the Act. Section 771(5) of the Act indicates that the term subsidy includes, but is not limited to, any export subsidy described in Annex A of the Agreement on Subsidies and a listing of domestic subsidy practices included in section 771(5)(B) of the Act.

Third, we analyze the information received in response to our questionnaire and within 85 days of filing make a preliminary determination. If this preliminary determination is affirmative, we direct U.S. Customs officials to require a deposit of estimated countervailing duties, or a bond in lieu thereof, on all entries of the imported Canadian merchandise.

Fourth, we verify the information received in the Canadian response from source documents, books, and ledgers of the appropriate Canadian Government agencies and Canadian producers and exporters.

Lastly, we make our final determination within 160 days of receipt of the petition. If a case is determined to be extraordinarily complicated, then an additional 65 days may be added to the investigatory period. If our final determination is also affirmative, and the International Trade Commission makes a final affirmative determination of injury, we direct the U.S. Customs Service to collect countervailing duties in the amount of the net subsidy as calculated by us during our administrative reviews.

Antidumping Procedures

Antidumping petitions and investigations are handled similarly. Once again we make every effort to assist smaller companies in gathering the data required to file a petition. We obtain import price information from Bureau of Census import statistics. We will also contact U.S. Customs ports of entry for pricing information, if the petitioner has exhausted every means at its disposal of obtaining import prices.

For antidumping investigations, our final determination must be within 75 days of the preliminary determination. If both our final determination and that of the International Trade Commission are affirmative, U.S. Customs officials begin actual collection of antidumping duties.

How the Department of Commerce is Assisting Small Border State Industries

Although we have not received very many petitions on Canadian products, we have made every effort to assist those U.S. industries and producers interested in filing petitions. In the last year and a half, these efforts included trips to Maine for talks with U.S. potato growers and maple syrup producers, to Syracuse and Newburg, New York for discussions with the New York State Vegetable Growers Association, and to Seattle, Washington for talks with the U.S. Shake and Shingle Manufacturing Association and the Northwest Independent Forest Products Manufacturers. ITC personnel participated in several of these trips. In the case of the Maine potato growers and the New York State vegetable growers, extensive information was developed by the respective associations and in cooperation with the Department of Agriculture. We are still in touch with the U.S. Shake and Shingle Association and the Northwest Independent Forest Manufacturers regarding possible filings.

Our most recent effort was a trip to confer with a U.S. hard-smoked herring producer in Lubec, Maine. In this case, after considerable assistance from the Commerce Office of Investigations personnel, the U.S. processor has formally filed a countervailing duty petition, and a full-scale investigation is being initiated.

In addition to those instances where we made visits to small producers, there are numerous occasions where by letter or phone conversation, we counsel U.S. companies, particularly smaller companies. Within the past year we have corresponded with the following companies regarding allegedly subsidized Canadian products: the Conproco Corporation, Hooksett, New Hampshire, on polystyrene insulated board; the National Tooling and Machining Association on certain molds; Mr. Nigrosh, Concord, New Hampshire, on recycled paperboard products; and Wire Conveyor Belts, Inc., Easton, Maryland, on woven wire mesh belting.

We are also aware that the other members of the U.S. fishing and processing industries believe there is significant Canadian aid to its fishing and processing industry. We stand ready to explore with them, if they wish, what constitutes an unfair trade practice and how an industry petitions for relief.

Conclusion

In closing, Mr. Chairman, we are very sensitive, to the needs of smaller U.S. border industries. Our doors are always open to provide them with assistance. If we identify an unfair trade practice, we will act. Thank you for the opportunity to testify.

PREPARED STATEMENT OF STEPHEN L. LANDE

I AM PLEASED TO BE HERE TODAY TO PRESENT THE VIEWS OF THE OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE ON THE IMPACT OF U.S.-CANADIAN TRADE POLICIES ON SMALL BORDER STATE INDUSTRIES.

THE UNITED STATES-CANADA TRADING RELATIONSHIP REMAINS THE LARGEST AND MOST EXTENSIVE OF ANY TWO COUNTRIES IN THE WORLD. IN 1981, TWO-WAY TRADE WILL APPROACH $87 BILLION, ACCOUNTING FOR ALMOST 20 PERCENT OF AMERICAN WORLD TRADE AND MORE THAN 70 PERCENT OF CANADA'S TOTAL INTERNATIONAL TRADE. WITH SUCH A LARGE PROPORTION OF OUR EXPORT TRADE DIRECTED TOWARD THE CANADIAN MARKET, TRADE NEGOTIATIONS WITH CANADA HAVE TRADITIONALLY HELD A SPECIAL SIGNIFICANCE. THIS WAS ESPECIALLY TRUE OF THE MOST RECENT ROUND OF TRADE NEGOTIATIONS CONDUCTED UNDER THE AUSPICES OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE, THE TOKYO ROUND OF MULTILATERAL TRADE NEGOTIATIONS, COMMONLY REFERRED TO AS THE MTN.

OUR MOST IMPORTANT OBJECTIVES VIS-A-VIS CANADA IN THE MTN WERE:

-- ADHERENCE BY CANADA TO ALL OF THE NON-TARIFF CODES
-- SUBSTANTIAL REDUCTIONS IN CANADIAN TARIFFS

-- REMOVAL OF AS MUCH TRADE AS POSSIBLE FROM THE CANADIAN MACHINERY PROGRAM AND A MAJOR REDUCTION IN THE AVERAGE DUTIES COLLECTED ON ITEMS WHICH REMAIN IN THE MACHINERY PROGRAM

-- THE ELIMINATION OF "MADE/NOT MADE IN CANADA" DISTINCTIONS IN CANADIAN TARIFF LINES COVERING A WIDE RANGE OF PRODUCTS

IN GENERAL, WE WERE LARGELY SUCCESSFUL IN ACHIEVING OUR MAJOR OBJECTIVES VIS-A-VIS CANADA. CANADA AGREED TO AN OVERALL REDUCTION IN INDUSTRIAL TARIFFS OF 42 PERCENT FROM LEGAL RATES. IN THE NON-TARIFF BARRIER AREA, CANADA HAS SIGNED ALL THE CODES, AND HAS AGREED TO SIGNIFICANT CONCESSIONS REGARDING THE MACHINERY PROGRAM AND "MADE/NOT MADE IN CANADA." HOWEVER, AS THE FOCUS OF TODAY'S HEARING IS TO DISCUSS THE IMPACT OF OUR TRADE POLICIES ON SMALL BORDER STATE INDUSTRIES, LET ME DESCRIBE BRIEFLY SOME OF THE MTN RESULTS AFFECTING THESE INDUSTRIES.

THE U.S. NEGOTIATING POSITION FOR THE MTN WAS FORMULATED AFTER EXTENSIVE CONSULTATIONS WITH THE PRIVATE SECTOR. INDUSTRY, LABOR, AND AGRICULTURAL CONCERNS AND ADVICE WERE COMMUNICATED TO THE U.S. NEGOTIATORS THROUGH A SYSTEM OF PRIVATE SECTOR ADVISORY COMMITTEES ESTABLISHED BY THE TRADE ACT OF 1974. REPRESENTATIVES OF THE SMALL WOOD PRODUCTS, FISH, AND HORTICULTURAL INDUSTRIES WERE INCLUDED ON THESE COMMITTEES. IN ADDITION, AT TIMES WE WENT OUTSIDE OF THE FORMAL ADVISORY PROCESS TO SEEK ADVICE.

SOME OF THESE INDUSTRIES WERE INTERESTED IN SECURING IMPROVED ACCESS TO THE CANADIAN MARKET, WHILE OTHERS SOUGHT TO MAINTAIN THEIR PRESENT LEVEL OF PROTECTION FROM IMPORTS. FOR EXAMPLE, MANUFACTURERS OF WOODEN CHURCH PEWS EXPRESSED STRONG INTEREST IN SECURING A REDUCTION IN THE HIGH (15 PERCENT) CANADIAN TARIFF. DESPITE INITIAL RELUCTANCE FROM CANADA, WE WERE ABLE TO ATTAIN A CONCESSION FROM THE CANADIANS TO REDUCE THIS TARIFF TO 6 PERCENT IN ANNUAL STAGES BEGINNING JANUARY 1, 1980. ON THE OTHER HAND, U.S. PRODUCERS OF TOOTHPICKS AND CLOTHESPINS REQUESTED THAT NO REDUCTIONS IN THE U.S. TARIFF RATE BE NEGOTIATED. AS A RESULT, NO CUTS IN TARIFFS WERE OFFERED BY THE UNITED STATES ON CLOTHESPINS, AND ONLY A MINOR REDUCTION, FROM 6 TO 4.2 PERCENT, WAS NEGOTIATED FOR TOOTHPICKS. HOWEVER, IN RECOGNITION OF THE CONCERNS OF THE DOMESTIC TOOTHPICK INDUSTRY, THE STAGED ANNUAL REDUCTION OF THIS TARIFF RATE WILL NOT BEGIN UNTIL NEXT YEAR.

U.S. OBJECTIVES IN THE MTN REGARDING THE FISH SECTOR WERE SOMEWHAT SIMILAR. AT THE REQUEST OF U.S. INDUSTRY, CANADIAN TARIFF REDUCTIONS WERE ACHIEVED ON CRABS AND OYSTERS. IN ADDITION, CANADA AGREED TO LIBERALIZE ATLANTIC COAST HERRING REGULATIONS TO ALLOW SHIPMENTS OF HERRING IN BULK, A KEY U.S. OBJECTIVE FOR THIS INDUSTRY. CONVERSELY, DESPITE STRONG CANADIAN INTEREST IN ATTAINING U.S. TARIFF REDUCTIONS, NO CUTS WERE NEGOTIATED ON FISH STICKS AND CANNED SARDINES.

THE MTN ALSO RESULTED IN NEW EXPORT OPPORTUNITIES FOR AMERICAN AGRICULTURE THROUGH THE REDUCTION OF FOREIGN BARRIERS TO TRADE AND

IMPROVEMENT IN THE RULES GOVERNING TRADE IN AGRICULTURAL PRODUCTS. POTENTIALLY MOST IMPORTANT FOR THE LONG TERM WAS THE NEGOTIATION OF INTERNATIONAL CODES OF CONDUCT IN TRADE, TO WHICH I REFERRED EARLIER. THESE CODES WILL ESTABLISH CLEAR GUIDELINES AND NEW DISCIPLINES ON THE USE OF PRACTICES SUCH AS PRODUCT STANDARDS, IMPORT LICENSING, EXPORT SUBSIDIES, AND OTHER PRACTICES THAT LEAD TO UNFAIR COMPETITION.

THIS ADMINISTRATION FIRMLY BELIEVES THAT INTERNATIONAL TRADE IS, AND WILL CONTINUE TO BE, HIGHLY BENEFICIAL TO THE U.S. ECONOMY. THEREFORE, WE ARE COMMITTED TO THE MAINTENANCE OF OPEN MARKETS BOTH AT HOME AND ABROAD. HOWEVER, AS AMBASSADOR BROCK HAS EMPHASIZED, WE WILL INSIST ON THE PRINCIPLE OF RECIPROCITY IN OUR TRADING RELATIONSHIPS, AND WE WILL STRONGLY OPPOSE TRADE DISTORTING INTERVENTIONS BY FOREIGN GOVERNMENTS.

NOTWITHSTANDING OUR EFFORTS IN THE MTN TO BRING GREATER DISCIPLINE TO THE WORLD TRADING SYSTEM, WE RECOGNIZE THAT IMPORTS, AT TIMES, MAY ADVERSELY AFFECT CERTAIN SECTORS. IT WAS PRECISELY FOR THIS REASON THAT THE ADMINISTRATION AND THE CONGRESS ESTABLISHED PROCEDURES THROUGH WHICH U.S. INDUSTRIES AND WORKERS MAY SEEK RELIEF FROM INJURIOUS OR UNFAIR COMPETITION BY IMPORTED PRODUCTS IN THE U.S. MARKET. BRIEFLY, THESE AVENUES FOR IMPORT RELIEF ARE (1) ANTIDUMPING ACTION TO ADDRESS UNFAIRLY PRICED IMPORTS; (2) COUNTERVAILING DUTY ACTION TO ADDRESS SUBSIDIZED IMPORTS; (3) IMPORT RELIEF UNDER SECTION 201 OF THE TRADE ACT OF

1974; AND (4) SECTION 301 OF THE TRADE ACT TO ADDRESS UNFAIR TRADE PRACTICES. RATHER THAN REVIEW THE INDIVIDUAL TRADE LAWS AT THIS TIME, I HAVE ATTACHED A BRIEF DESCRIPTION OF THESE REMEDIES TO MY STATEMENT.

I BELIEVE THAT IT IS IMPORTANT TO NOTE THAT THESE REMEDIES ARE AVAILABLE TO BOTH LARGE AND SMALL INDUSTRIES. FOR EXAMPLE, SUCH SMALL INDUSTRIES AS CLOTHESPINS, MUSHROOMS, AND PORCELAIN-ON-STEEL COOKWARE ARE PRESENTLY BENEFITING FROM IMPORT RELIEF PURSUANT SECTION 201 OF THE TRADE ACT. A DUMPING INVESTIGATION INTO IMPORTS OF SUGAR AND SYRUPS FROM CANADA IS CURRENTLY UNDERWAY, AS IS A SUBSIDY INVESTIGATION INTO IMPORTS OF HARD-SMOKED HERRING FILETS FROM CANADA.

AT THE SAME TIME, HOWEVER, WE RECOGNIZE THAT MANY SMALL INDUSTRIES MAY NOT BE AWARE OF THE EXISTENCE OF THESE REMEDIES, OR, IF THEY ARE AWARE OF THEM, THEY MAY FIND THEM EXCEEDINGLY CONFUSING OR BURDENSOME. MY OFFICE BELIEVES THAT IT IS ESSENTIAL THAT THE INTERESTS AND CONCERNS OF SMALL INDUSTRIES ARE BROUGHT TO THE ATTENTION OF TRADE POLICY OFFICIALS, AND THAT THESE INDUSTRIES ARE FULLY AWARE OF THOSE REMEDIES AVAILABLE TO THEM FOR SEEKING REDRESS FROM UNFAIR OR INJURIOUS IMPORT COMPETITION.

AS I HAVE ALREADY MENTIONED, A SYSTEM OF PRIVATE SECTOR ADVISORY COMMITTEES HAS BEEN ESTABLISHED TO ENSURE THAT A FORMAL

MECHANISM EXISTS TO MAINTAIN A CONTINUOUS DIALOGUE BETWEEN GOVERNMENT AND THE PRIVATE SECTOR REGARDING TRADE POLICY MATTERS. BOTH INDIVIDUAL COMPANIES AND TRADE ASSOCIATIONS, INCLUDING SOME REPRESENTING SMALL INDUSTRIES, PARTICIPATE ON THESE COMMITTEES. HOWEVER, IN RECOGNITION OF THE NEED TO BRING MORE SMALL INDUSTRIES INTO THIS FORMAL ADVISORY PROCESS, A SPECIFIC ADVISORY COMMITTEE FOR SMALL AND MINORITY BUSINESS HAS BEEN ESTABLISHED.

OF COURSE, IT IS CLEARLY NOT ADMINISTRATIVELY POSSIBLE TO HAVE EVERY SMALL INDUSTRY REPRESENTED IN THIS PROGRAM. FOR MANY OF THESE SMALL INDUSTRIES, THEIR ONLY CONTACT WITH WASHINGTON IS THROUGH THE DISTRICT OFFICES OF THEIR ELECTED REPRESENTATIVES. THEREFORE, IT IS IMPERATIVE THAT THE UNITED STATES CONGRESS PLAY AN ACTIVIST ROLE IN BRINGING THE CONCERNS OF SMALL INDUSTRIES TO THE ATTENTION OF THE POLICYMAKERS IN WASHINGTON.

MR. CHAIRMAN, AN EXCELLENT EXAMPLE OF THE IMPORTANT ROLE THAT THE CONGRESS CAN PLAY IN ENSURING THAT THE PROBLEMS OF SMALL INDUSTRIES ARE COMMUNICATED TO THE APPROPRIATE GOVERNMENT OFFICIALS IS THE ACTIVITY UNERTAKEN BY YOUR OFFICE ON BEHALF OF THE MAINE POTATO INDUSTRY. AT YOUR REQUEST, A REPRESENTATIVE OF OUR OFFICE, ALONG WITH AN OFFICIAL OF THE DEPARTMENT OF AGRICULTURE, TRAVELED TO PRESQUE ISLE, MAINE LAST SUMMER TO MEET WITH POTATO INDUSTRY REPRESENTATIVES TO DISCUSS THEIR CONCERNS AND TO EXPLAIN POSSIBLE REMEDIES AVAILABLE TO THEM FOR ADDRESSING THEIR PROBLEMS. THIS

TRIP HAS BEEN FOLLOWED BY FURTHER DISCUSSIONS BETWEEN GOVERNMENT OFFICIALS AND THE MAINE CONGRESSIONAL DELEGATION OVER THOSE POTENTIAL REMEDIES. THE DOMESTIC INDUSTRY MUST NOW DECIDE UPON THE APPROPRIATE RELIEF MECHANISM WHICH THEY WISH TO PURSUE.

ANOTHER EXAMPLE OF THE IMPORTANT ROLE THAT CONGRESS CAN PLAY IN THIS AREA WAS A MEETING ARRANGED IN EARLY OCTOBER BY SENATOR GORTON'S OFFICE BETWEEN USTR STAFF AND A DELEGATION REPRESENTING SMALL, WEST COAST LUMBER MANUFACTURERS. AT THAT MEETING, WE WERE PROVIDED WITH DETAILED INFORMATION ON THEIR PROBLEMS, AND, ON OUR PART, WE THOROUGHLY DISCUSSED OPTIONS AVAILABLE TO THEM FOR PURSUING RELIEF. AGAIN, WE ARE AWAITING A DECISION BY THAT INDUSTRY ON THE NEXT STEPS THEY WISH TO TAKE.

WE BELIEVE THAT CONSULTATIONS SUCH AS THESE ARE AN IMPORTANT TOOL IN ADDRESSING THE CONCERNS OF SMALL INDUSTRY. THEY PROVIDE TO TRADE POLICY OFFICIALS BOTH A FULLER UNDERSTANDING AND A BETTER APPRECIATION OF THE DIFFICULTIES BEING EXPERIENCED BY SMALL INDUSTRY. AT THE SAME TIME, THEY PROVIDE THESE INDUSTRIES WITH ESSENTIAL INFORMATION REGARDING REMEDIES AVAILABLE TO THEM TO ADDRESS THEIR CONCERNS.

THANK YOU, MR. CHAIRMAN, FOR THE OPPORTUNITY TO DISCUSS THESE IMPORTANT ISSUES WITH THE SUBCOMMITTEE. I WOULD BE PLEASED TO ADDRESS ANY QUESTIONS WHICH YOU OR MEMBERS OF THE SUBCOMMITTEE MAY HAVE.

ATTACHMENT

SUMMARY OF REMEDIES

ANTIDUMPING ACTION (Sec. 731, Tariff Act of 1930, as amended)

Conditions to Satisfy:

1) Export prices are lower than home market prices; or
2) Lower than export prices to third-country market; or
3) Lower than Canadian cost of production.

and

4) U.S. "industry" must be materially injured or threatened with material injury by reason of above.

Remedy:

Antidumping duties imposed in amount equal to margin by which imports from Canada are priced below home market prices, third-country prices or cost of production

or

Agreement is reached to eliminate dumping margin or eliminate exports to U.S. of dumped products.

COUNTERVAILING DUTY ACTION (Sec. 701, Tariff Act of 1930, as amended)

Conditions to Satisfy:

Products imported into U.S. must benefit from a subsidy

and

U.S. "industry" must be materially injured or threatened with material injury by reason of above.

Remedy:

Countervailing duties imposed in amount equal to margin of subsidization

or

Agreement is reached to eliminate subsidy margin or eliminate exports to U.S. of subsidized products.

IMPORT RELIEF ACTION (Section 201, Trade Act of 1974)

Conditions to Satisfy:

Imports must be increasing (in actual or relative terms)

and

Increased imports must be a substantial cause of serious injury to the U.S. "industry"

and

The President must proclaim relief from increased imports.*

* Should the President take no action or action which differs from the recommendation of the International Trade Commission, his decision is subject to legislative override.

SECTION 301 ACTION (Section 301 of the Trade Act of 1974, as amended)

Conditions to Satisfy:

Canadian practice affecting exports of products to the U.S. or third-country markets or adversely affecting sales of U.S. products into Canada must be shown to be:

1) Inconsistent with the provisions of, or otherwise denies benefits to the United States under any trade agreement

or

2) Unjustifiable, unreasonable, or discriminatory and burdens or restricts U.S. commerce

and

The President must take action to effect relief from such practice.

PREPARED STATEMENT OF RICHARD A. SMITH

Mr. Chairman and members of the Committee, I appreciate this opportunity to meet with you to discuss U.S.-Canadian trade policies as they relate to agriculture.

There is little doubt of the importance attached to agricultural trade between the United States and Canada. In 1980, U.S. agricultural exports to Canada were $1.85 billion, making Canada our seventh largest market. Overall, Canada depends on the United States for nearly 60 percent of its food and feed needs. Canadian agricultural exports to the United States, at slightly less than $1.1 billion, make us their second largest agricultural market, surpassed only by the Soviet Union.

The considerable surplus in the balance of trade in agricultural products is largely the result of an almost 10-to-1 surplus balance of trade in horticultural products. In 1981, the United States exported nearly $721 million worth of fruits and vegetables to Canada, making it our largest single export market for these products. We imported only $89 million worth of similar products from Canada. Furthermore, while Canadian horticultural exports to the United States comprise mainly three products--apples, potatoes, and rutabagas--U.S. horticultural exports cut across the entire product sector.

U.S. agricultural trade with Canada is unique compared with that of our other trading partners. For many sectors, U.S.-Canadian agricultural trade is highly integrated across the border. For example, two-way trade in live cattle totaled more than $190 million in 1980. The heavy movement of this trade can be attributed to common livestock cycles, marketing institutions, feed availability, and transportation networks that are so intertwined as to be one market structure. In light of escalating transportation costs, a north/south relationship between the United States and Canada in several product sectors often makes more sense than an east/west one within each country.

U.S. policy toward agricultural trade with Canada is based upon cooperation and a common set of agricultural goals. The importance of Canada to the United States as both a market and an international ally cannot be overstated. In many instances, joint efforts between the United States and Canada are essential to overcoming problems that are continental in scope, such as disease and pest eradication. We must, therefore, take a broad look when approaching agricultural trade with Canada.

Of course, this makes decision-making more difficult when focusing on one small sector of the total trade picture. We believe that, in general, U.S. producers can compete fairly with any in the world. This Administration has a commitment to a liberal trade policy with minimal government intervention. However, having said that, I would like to add that in agricultural trade policy toward Canada, as in all U.S. international trade policy, this Administration also is committed to protecting domestic industries against unfair practices of other governments and situations in which an industry truly needs assistance to adjust to new conditions.

-more-

The Foreign Agricultural Service represents the interests of American agriculture through its participation in the formulation of international trade policy. This is accomplished through the Office of the United States Trade Representative (USTR) and its mechanism, the Trade Policy Committee and its subordinate bodies. FAS works closely with USTR and other agencies at all levels to consider all aspects of a particular trade problem and reach a compromise position. Our expertise in commodity analysis and the foreign agricultural situation is invaluable to this process. Through our foreign agricultural attaches, we obtain the information needed to provide the best advice to the Committee regarding the practices of another government and their impact on the flow of trade.

In the case of a specific complaint, certain other agencies assume particular responsibility under U.S. law. For example, when a foreign subsidy is alleged to exist on a product imported into the United States, the Department of Commerce must determine that the subsidy in fact exists. Then, if the foreign country, like Canada, is a signatory to the recently negotiated Subsidies Codes, the International Trade Commission must determine whether the subsidy is causing or threatens to cause injury to the U.S. producers.

FAS often helps the petitioner by making available its extensive resources and data collecting ability. But it is the role of the U.S. International Trade Commission and the Commerce Department to investigate and make rulings on findings in these cases involving imports into the United States. In other cases, where an export market rather than the U.S. market is involved, FAS assists the USTR in pursuing U.S. rights under the General Agreement on Tariffs and Trade (GATT).

-more-

During the course of the Tokyo Round of the MTN, FAS worked with domestic agricultural industries to obtain their input into the negotiations through the Agricultural Policy Advisory Committee (APAC) and the Agricultural Technical Advisory Committees (ATACs). A potato industry representative was a member of the Fruit and Vegetable ATAC, for example.

While the MTN package with Canada was being negotiated, Canada announced its intention to increase its import duties on $115 million worth of horticultural items. The U.S. goal in negotiating on these horticultural items was to reduce the adverse effect of these increases and obtain offsetting decreases in other key horticultural commodities. One result of the negotiations was a reduction of the U.S. duty and elimination of the U.S. tariff-rate quota on potatoes, with offsetting decreases in the Canadian duty levels on $108 million worth of other horticultural items.

The United States also received a reduction in the Canadian rate of duty on potatoes to match the lower U.S. rate. At the time of the MTN, the United States traditionally exported three times the amount of potatoes to Canada as it imported. The United States is still a major supplier of potatoes to Canada, exporting $18.3 million worth in 1980. However, in the past few years since the agreement was signed, the value of the Canadian dollar vis-a-vis the U.S. dollar has fallen dramatically, making Canadian potatoes far more competitive in the United States.

In the future, should the Canadian and U.S. dollars return to a more balanced situation, this, in turn, should improve the competitive position of U.S. potatotes, relative to Canadian potatoes in both domestic and international markets.

-more-

Several legal remedies are available to domestic producers to correct an alleged trade imbalance. The countervailing duty law provides for the imposition of a countervailing duty equal to the net amount of any foreign subsidy on an imported good if the subsidy results in or threatens material injury to a domestic industry. The Commerce Department and the U.S. International Trade Commission have primary responsibility over these cases, as mentioned before.

The antidumping law, also administered by the Commerce Department and the ITC, similarly provides for the imposition of a duty in cases where a foreign exporter is found to be selling a product for less than fair value in the United States, resulting in material injury to the domestic industry.

Finally, Section 201 of the Trade Act of 1974, the so-called "escape clause," permits any producer to petition the ITC for a ruling on whether the mere existence of increased imports of any product is causing serious injury to the domestic industry.

The Trade Agreements Act of 1979 greatly streamlined the provisions for supervision of countervailing duty and antidumping cases. The length of time from the filing of a petition to the completion of an investigation and announcement of final determination is explicitly set by the Act in each case and this time has been reduced substantially.

As for import relief under Section 201, the ITC must make a report of its findings to the President within six months of the filing of the industry's petition. Furthermore, it is our understanding that both the Commerce Department and the ITC are willing to review draft petitions and make comments for improvement before the formal filing of any petitions.

-more-

These laws can and have been used successfully by small agricultural industries. The U.S. canned mushroom industry recently was afforded temporary relief from increased imports under Section 201 when additional duties on canned mushroom imports were imposed for three years. Recent reports confirm that imports decreased dramatically since the imposition of temporary relief, thus allowing the domestic industry a period of modernization.

The willingness of the United States and Canada to work together to find solutions to trade problems is an example of the strong trade relationship that exists between our two countries. Wherever possible, we encourage two industries with a problem to work together to solve it. When unfair trade practices occur, our response is first to try to talk with Canada and come to a mutual agreement. But this Administration is committed to seeing that trade problems are resolved, either through discussions or direct action.

Thank you for allowing me to discuss these matters with you. I would be glad to answer any questions you may have.

Senator Cohen. I would like to take this opportunity to thank Bob Umphrey, Will Stelle, and Peggy Weeks of my staff, who have worked at great length to put this hearing together in meeting and talking with all of you.

The subcommittee record is going to remain open for 30 days for the inclusion of any additional material.

The hearing will stand adjourned, subject to the call of the Chair.

[Whereupon, at 1:25 p.m., the hearing was adjourned, subject to the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Statement of Hon. David F. Emery, a Representative in Congress from the State of Maine

It is a pleasure to have the opportunity to submit a statement for the record on the subject of the effect of Canadian export policies on U.S. border states' small businesses and industries. I would like to extend my appreciation to Senator Cohen, Chairman of this distinguished Subcommittee, and to the Committee members, for recognizing the need to air the problems currently confronting smaller industries in states which share a common border with our neighbor to the north. I am certain that the testimony presented here today by industry representatives and officials of Federal agencies will shed some long-overdue light on this subject and allow us to work on appropriate solutions.

In both their day-to-day operations and in planning for their long-range prospects, these industries encounter obstacles with respect to foreign competition which affects the ability to produce and market a certain commodity effectively. Certainly free trade is, and should continue to be, the cornerstone of our business policy, and healthy competition is the basis for the success of an industry in many cases. However, in some areas it appears that the rules for the game of international trade are not the same on different sides of the border. It would seem that the purpose of the hearing today is to determine the extent to which a difference in national policy adversely affects our small businesses and whether adequate redress exists, or should exist, through our own governmental channels.

The history of doing business with Canada has, for the United States, been overall a success and our trade relationship is closely intertwined with other considerations of equal importance to a healthy business environment. As problems begin to form, due to changing economic conditions and external influences, both nations, which have long shared common interests, must maintain a cooperative working relationship which ensures smooth relations. Thus the issue of how best to address the problems which confront our domestic industries as a result of specific Canadian national policy is an extremely difficult one.

I am most familiar with two domestic industries which represent the heart and soul of Maine's economy: fisheries and potatoes. Because we share a lengthy border with Canada's Eastern provinces, Maine residents have a good working relationship with their Canadian neighbors and enjoy a history of cooperation on a day-to-day basis. At the same time, because of the closeness of our borders, our fishermen compete over the same fish stocks and our potato producers grow their crop under similar soil and weather conditions. The markets which are available to industries in the Northeast, particularly Boston, New York and the Washington, D.C. area, are just as accessible for Canadian exporters, and for businesses in Maine the costs of transportation to these markets is hardly an advantage over that experienced by Canadian competitors.

On the face of it, this should not be the cause of extreme concern since this situation has existed for at least a century. However, in the past several years, the Canadian government, in an understandable effort to ensure a viable economy, has consciously undertaken to capture traditional American markets to an extent not experienced earlier. For the Canadian fishing industry, this pursuit of increased exports has made available subsidies for vessel construction, low-interest loans, and direct export payments, to name a few of the support programs in place on both the provincial and Federal levels. When discussing the potato industry, Canada's policy has resulted in the targeting of $3 million for the promotion of potato exports aimed at U.S. markets. Information compiled by the industry, USDA, and the Canadian government shows that subsidies of the Canadian potato industry occur in four areas on the Federal level and in seven separate categories in the Provinces which have potatoes as a major crop.

As a result, statistics for 1980 show that of the 2.1 million pounds of edible fish imported into the United States from every corner of the world, imports from Canada represent one-quarter of the total. In addition, the Canadian government has espoused a major policy of becoming the world's number one fish exporter and in doing so to reduce the United States share of exports worldwide. They have done so by integrating foreign purchase of Canadian harvested fish with access to the Canadian 200-mile fishing zone, a policy not actively pursued by the United States. Taken altogether, the marketability of U.S. fish is diminished, and imports into our country represent 60% of all fish consumed in this nation.

The effect of Canadian policy on our domestic potato industry is not dissimilar. In the past several years, Canadian potato exports into the United States have steadily increased, and last year witnessed a 300% increase in those imports over the previous year. Canadian imports entering the United States through Maine border stations represent 25% of the total volume of Maine-grown potatoes. The effect of this on the domestic industry has been severe, especially when coupled with the Canadian-U.S. monetary exchange rate which at this time is particularly favorable to Canadian industries.

These two examples represent only a portion of U.S. industries currently feeling the effects of Canadian export policies. I do not fault the Canadians for taking decisive action to target their financial resources for the improvement of their economic stature, but am concerned that official recognition of the devastating effects of such a policy on American industries is lacking. The need exists to examine this situation and bring about a policy of our own which addresses the special needs of the smaller, less vocal businesses currently at an economic crossroads. The provisions which exist for import relief are not in all cases applicable to these industries· certainly the resources available to a major industry are not as easily accessed by fishermen who cannot even afford the cost of a new vessel.

I hope, then, that the initiative taken by Senator Cohen and the Committee Members in scheduling these hearings will first demonstrate the need for attention from the Federal government and,second,encourage the various agencies with jurisdiction over this broad issue to coordinate the effort to address the special needs of the small industries struggling to stay afloat in the rough seas of international trade and competition.

In any discussion of the problems which arise out of that trade it is necessary to consider the quid pro quo which accompanies consideration of any change in our trade policy. If we push for redress in the areas of fisheries, potatoes and lumber, in what area will we have to make concessions in order to satisfy all parties involved? Any changes in the GATT necessitates serious policy considerations with possible implications beyond attention to immediate concerns, and I certainly understand the need to maintain a trade balance which creates the most benefits for American business. However, as the Canadians move to pursue new policies in the areas of energy and foreign investment, it will be interesting to determine the extent of their willingness to make concessions through official U.S./Canadian negotiations under the GATT provisions. Specific Canadian policies, such as the National Energy Policy (NEP), appear to be a cornerstone of future development plans, but the boundaries of compromise could be shortened by espousal of such policies. Whether the U.S. can achieve compensation in other commodity areas as a result remains to be seen, but I think it important not to close any possible avenues of resolution.

Again, I would like to express my thanks to this Subcommittee for providing a forum through which these important issues can be discussed intelligently by those experiencing the problems at hand and those who have access to potential solutions. I trust the discussion begun today will continue as we look for answers, and appreciate the opportunity to become involved in that search.

Statement of Hon. Olympia J. Snowe, a Representative in Congress from the State of Maine

Mr. Chairman, a major problem has long been overlooked, but now cries out for immediate attention and action. The decline of three key industries in Maine, the fishing, potato and lumber industries, has now accelerated to serious proportions. While there are some uncontrollable elements that contribute to this sad state of affairs including unprecedented interest rates and exhorbitant fuel costs, I would be remiss if I did not make note of an area which can be acted on to help nurse our weakened state economy back to health.

My concern rests with the unfair and disruptive trade policies of the Canadian Government. While it is of course true that Canada and the United States are each other's largest trading partner and the level of two-way trade may reach $87 billion this year, border states such as Maine do not ultimately benefit from this high volume of activity. The Maine farmer, lumberman and fisherman, due to a system of massive Canadian price supports, suffer untold damage to their livelihood.

We have two totally economic divergent philosophies that must work together while at the same time compete. The U.S. Government for the most part, has historically supported a free market approach to international trade. The current administration is emphatically committed to the maintenance of our free market policy. But the definition of free market, in my eyes, must also include the implicit understanding of fair competition. This is surely not the current state of affairs which can be described as existing between the U.S. and Canada. The Canadian Government takes a diametrically opposite course in its approach to economics and trade. The Canadian Government, via prodigious price supports, numerous subsidies, loans, financial guarantees and tax incentives give our Canadian competition a substantial edge over the Maine businessman.

One of the most clear cut examples of this imbalance is the potato industry. Canadian potato growers benefit from as many as thirty government-sponsored assistance programs that take the form of direct grant, retroactive subsidized price mechanisms, and sophisticated marketing and research tools. Taken together, these incentives provide Canadian farmers with an enormous advantage over their American counterparts. On the other side of the coin, there are very few federal assistance programs that U.S. potato farmers can turn to for financial help. Agricultural programs administered under the Farmers Home Administration have in the past provided the Maine potato farmers only with about 40 percent of their financing costs. As one can see however, the majority of assistance is financed either through local banks that demand high interest rates, or through a farmer's personal income. This grave situation will be further compounded by scheduled budget cuts to FMHA over the next fiscal year.

In addition, U.S. negotiators at the Tokyo round of General Agreement on Tariffs and Trade (GATT) shortchanged our potato industry in Maine by phasing out quotas and reducing tariffs on seed and tablestock potatoes in order to obtain duty reductions with Canada for our large fruit and vegetable industries in the south. To demonstrate this point it is important to note that as a result of the reduction of tariffs under GATT, there has been nearly a 300 percent increase in Canadian seed and tablestock imports during the past year. These imports will exceed 25 percent of the total volume of Maine fresh tablestock and will result in the industry taking a possible $25 million loss in 1981. The economic damage to Maine growers from this action is further compounded by the current low value of the Canadian dollar which gives the Canadian potato producers nearly a 20 percent advantage on sales to U.S. markets.

In an effort to relieve some of the damage that the Canadian potato growers have done to our domestic market, federal officials suggest that we further expand our export trade market; however, those same individuals are the ones who have prevented any effort of establishing an export subsidy program on export credit program from occurring. Moreover, as in our domestic markets, the Canadaian potato growers are able to undercut our export market by selling their subsidized products at prices far below what the Maine potato farmer could offer to make a profit.

Needless to say, the combination of these unfavorable trade policies and economic factors, have served as a disincentive for Maine farmers to plant another potato crop, or commit additional funds for machinery and storage facilities. When our potato farmers are threatened with the loss of their livelihood and farms by subsidized foreign imports, corrective action must be taken by the federal agencies responsible for administering import relief.

Another concern to Maine is the impact of Canadian fishing subsidies on U.S. markers. This system of price supports and tax breaks prop their industry up to the distinct disadvantage of U.S. fishermen. For example, how can a Maine fisherman be expected to compete with a Canadian Fishing Vessel Construction Assistance Program which provides up to $50,000 for the purchase of new gear or for the upgrading of a fishing vessel? What of the Canadian tax exemptions which are granted on fuel sales? Armed with supports of this nature, the Canadian fisherman can march into U.S. markets and severely undercut the New England fisherman's market price. Is the U.S. fish market free of manipulation? Is this a truly free market? I think not. This situation is patently unfair and must be rectified. I am calling on the U.S. Government to start negotiations regarding this inequity. We must recognize that the U.S. and Canada are interdependent. We must accommodate each other or both will suffer.

Similarly, the subsidized Canadian timber industry adversely affects the prosperity of its U.S. counterpart. The Canadians have improved their share of the U.S. market from 18 percent to 31 percent since 1975. While Canadian forest products firms have been profitting, U.S. logging and sawmilling operators have been losing their jobs. Currently, overall U.S. unemployment in the timber industry hovers at 20 percent. In some regions the level of idleness is a staggering 50 percent. Clearly, we cannot sit back and watch while these actions work to our detriment. Fairness, as relates to subsidized imports can and should be negotiated. Fair competition is not just a slogan; it is a practical manner of doing business. I submit that if the U.S. is to compete with imported British Columbian timber, for example, which is 12-times less expensive because of government price structuring, then we do not have any semblance of even handedness. Additionally, regulated energy costs and rail transport subsidies add to Canadian profitability while undermining ours.

In conclusion, we recognize that these points of contention will not be easily overcome, and there are many possible solutions. The application of countervailing duties, the erection of a total ban on imports, the assistance of U.S. industry with subsidies and regulation of flow of goods to this country all could be factored in. While some or all of these proposals may be appropriate, we must keep in mind that governmental attempts on either side of the border to restrict trade would have major implications for both economies. We must approach this thorny issue in an equitable manner. We must seek solutions that are fair to both our nations. Negotiations with the Canadian Government must begin immediately. The issue before us is nothing less than the survival of three vital Maine industries.

Mr. Chairman, I appreciate this opportunity to testify on a most important issue. Thank you very much.

Statement of Hon. Denny Smith, a Representative in Congress from the State of Oregon

Mr. Chairman, I am delighted to have an opportunity to comment today on the tremendous increase in U. S. imports of dimension lumber from Canada and the effect this is having on domestic mills in the Pacific Northwest. The timber industry is the principle industry, and employer, in my home State of Oregon, and the industry is currently experiencing its worst decline since the Great Depression of the 1930s. Granted, this problem is primarily brought on due to high interest rates and the lack of housing starts; however, increasing U. S. imports of dimension lumber from Canada is only heightening the economic slump in the Northwest.

British Columbia is the major timber producer in Canada. Approximately 80% of British Columbia's lumber is exported with more than 50% of it coming into the United States. Canadian sawmills have a tremendous raw material cost advantage over the U. S. A recent study by the Northwest Independent Forest Manufacturers (NIFM) shows that the average price for timber sold on national forest lands in Oregon and Washington in 1980 was $286/MBF in comparison with $24/MBF for timber sold from provincial lands in British Columbia. This translates into a 12-to-1 raw material cost advantage that the British Columbia mills enjoy over our mills in the Pacific Northwest.

There have been arguments that to compare our finished products over the price of stumpage is like comparing apples and oranges, and that allegations of an unfair advantage by the Canadians are not accurate. British Columbia will say that the price of stumpage is a reflection of differences in the type of forest resource, their wage rates, stumpage appraisal systems, forest policy, and taxation.

The NIFM study compared individual species and in looking at the coastal Douglas Fir, we find an even greater difference. In the Northwest during 1980, Douglas Fir was sold at about $432/M as compared to $76/M for Douglas Fir sold from provincial lands in British Columbia. This is quite a large advantage. Even if the argument is true that their timber value is worth less than those on our national forest lands, there is not enough validity to that argument to substantiate the significant difference when comparing stumpage prices.

Canadian transportation costs have proven another government-subsidized advantage. The railway owned by the Canadian government moves the lumber from the west to eastern markets in the United States for $25 a thousand board feet less than rates domestic railways charge Northwest timber companies.

I also recognize that some of the problems being experienced by the timber industry were brought on by the industry itself. When timber was sold several years ago, the purchasers took into account a 15% inflation rate. Therefore, companies felt they could bid a large percentage over the appraised value of the timber. Also, the uncertainty of future available timber has contributed to speculative bidding. As a result, many companies are forced to harvest timber at prices far above any profit they will ever realize.

The manner in which the U. S. sells national forest timber compared to the Canadians is also quite different. Mills in the U. S. must competitively bid on timber and the highest bidder receives the sale. However, in British Columbia, the government sets the price of timber and it is then allocated to mills on a noncompetitive basis. With the housing slump and demand for lumber on the decline, the Canadian government can reduce the price of stumpage to reflect the current market for lumber. This way, the government can, in essence, subsidize the industry in order to keep Canadian mills in operation which keeps jobs for Canadians.

During the current economic downturn, the Canadians have increased their exports into U. S. markets by 4.2 billion board feet. This translates into approximately 6000 primary wood working jobs; and for each of those jobs, you can count on two service-related jobs at a minimum. A conservative estimate of this means that approximately 18,000 Oregonians are out of work due to the large Canadian presence in our lumber market.

The wood products industry is in a severe recession which recently plunged to a new low. According to the Western Wood Products Association, Oregon had 71 lumber mills closed and 69 working on curtailment at the end of October. Each week these figures increase and unemployment continues to soar. The association found that 61,788 or 61% of the 102,000 sawmill employees in the twelve western states are currently unemployed or working a reduced shift.

I have discussed the severity of Oregon's economic situation with the President and a number of other Administration officials. I have been criticized by the press for my statements that the President should immediately place a temporary ban on Canadian imports of dimension lumber. If Canada does have an unfair competitive edge, then our two countries need to achieve an understanding which will satisfy the industry's current needs. I do not want a government bailout of the industry...I am a firm believer in free trade. However, we must have fair trade.

In the meantime, I feel it is important that we push a "buy American" effort. It's time for Americans to help Americans by boycotting Canadian lumber. I recognize that the Canadians have some economic problems in their wood products industry, too, but it is time we took steps of our own to help our fellow Americans.

Thank you for the opportunity to present my testimony to the subcommittee. I hope this information will prove beneficial toward a fair resolution of this problem.

STATE OF MAINE
OFFICE OF THE GOVERNOR
AUGUSTA, MAINE
04333

JOSEPH E. BRENNAN
GOVERNOR

November 13, 1981

Senator William Cohen
U.S. Senate
1251 Dirksen Senate Office Building
Washington, D.C. 20515

Dear Senator Cohen:

Thank you for the opportunity to submit information to your Subcommittee on the subject of Canada-U.S. trade relations as they affect Maine. I am hopeful that your Subcommittee's work will have a fruitful outcome.

Maine's geography, economy, and history are interwoven with those of adjacent Canadian provinces to a degree that is unique in the nation. We are, therefore, fully aware of intricate relations of kinship, trade, tourism, and sectional interests with our Canadian neighbors. Just as we are conscious of our own interests, so we are mindful that our larger, more enduring interest is in seeing that these national relations retain a friendly and cooperative tone to the greatest possible extent.

I would like to summarize for you our concerns in the three areas of fisheries, forest products, and agriculture. For your information, I have attached short summaries of each area, prepared by the Department of State Government that are responsible in each case.

Fisheries

Canadian fish imports have been a source of rising concern to Maine fishermen, who are now struggling to develop a more healthy and diversified industry based on the new 200-mile limit. The State and several coastal towns are committed to expanded fish pier facilities to promote this. Concern remains that federal officials have not been giving thorough consideration to the advantages enjoyed by Canadian fishermen as a result to Canadian government policies. I would ask that your Subcommittee request the International Trade Commission to give its careful attention to the question of whether countervailing duties would be appropriate in this case. We are not satisfied that past inquiries have fully analyzed the problem.

Forest Products

The major aspect of our trade relations in forest products is our log export trade with Quebec. This log trade allows profitable opertion of private timberlands and an upgraded management program across large districts of northwestern Maine. It provides vigorous competition for timber in still larger areas of the state, which aids forest management. In Quebec and Maine several thousand jobs depend on this trade. On the other hand, a sizeable flow of pulpwood comes into Maine from New Brunswick. All told, I consider that this log trade benefits Maine and does not pose any need for federal concern.

Our lumber interests feel that Eastern Canadian producers have an advantage in U.S. markets as a result of the exchange rate differential that now stands at roughly twenty percent. Any actions of overall federal policy that could narrow this differential would be helpful to our region's lumber industry. New England is seeing a substantial boom in waferboard and oriented strand boards which are now predominantly supplied to New England from Canada. The exchange rate will affect our own producer's ability to compete with Canadian producers.

Maine has interests in maple products and in Christmas trees, but we have no major concerns with the existing levels of Canadian imports in these markets. On the other hand, the ITC has an investigation underway on the import quota for clothespins, which I have urged them to extend for three more years.

Potatoes

The Maine potato industry is deeply affected by import of Canadian potatoes into our traditional east coast table stock markets. During 1980. 140,540,000 pounds crossed Maine borders as table stock destined for U.S. markets; an additional 77,700,000 pounds crossed as seed, much of this also destined for table stock markets. Maine growers believe that Canadian potatoes penetrate their markets at lower prices which are made possible by the beneficial exchange rate, the ineffectuality of the table stock tariff, and the extensive governmental assistance available to Canadian growers in production, transportation, and marketing. The U.S. government should address these Canadian advantages in two key ways which are:

1. The U.S. government primarily through the USDA, the Department of Commerce, and the International Trade Commission should assist Maine farmers by documenting the extent of Canadian subsidies. Any inequities should be addressed through additional tariffs either by way of an anti-dumping or countervailing duty assessment or by some similar approach.

2. The U.S. government primarily through USDA, EDA, and DOT should assist in improving the competitive position of Maine growers through increased assistance in transportation improvements, in domestic and export market development, in production technology transfer, and in needed capital improvements.

I hope you will aggressively pursue these issues, and that you will find the attached background material useful. Please contact me if I can provide further information. Please see to it that I receive copies of the printed hearing record.

Sincerely,

Joe

JOSEPH E. BRENNAN
Governor

JEB/sc

Enc.

STATEMENT BY SPENCER APPOLONIO, COMMISSIONER,
MAINE DEPARTMENT OF MARINE RESOURCES

STATE OF MAINE

Inter-Departmental Memorandum

Date November 12, 1981

To Lloyd C. Irland
Dept. State Planning Office

From Spencer Apollonio, Commissioner
Dept. Marine Resources

Subject Background on fisheries tariffs: US/Canadian trade relations re/Senator Cohen's hearings

---

1) The New England groundfish industry:

The New England groundfish industry is primarily concerned with supplying fresh or "fresh-frozen" fish into northeastern U.S. markets. The Maine fishing industry is an integral part of that system. The Maine groundfish landings in 1980 were about 26,000 tons; the New England total was about 190,000 tons. In addition, a nearly comparable volume of fish from Canada enters that market.

2) Countervailing duties:

The Congress has provided that countervailing duties may be applied by the U.S. Tariff Commission to imported products, including fish, to offset competitive advantages created by governmental subsidies to the imported fish. The intent of Congress appears to be to insure that U.S. producers may compete equitably in the market with imported and subsidized products. (Section 303, Tariff Act of 1930, as amended, 19 U.S.C. 1303).

The New England fishing industry, on several occasions, beginning in the 1950's and as recently as 1980, has requested that countervailing duties be applied to imported Canadian groundfish. The New England fishing industry has submitted documentation of its case on each occasion. The Tariff Commission has never seen fit to effectively implement countervailing duties.

3) Canadian fish exports to the U.S.:

Since the early 1950's, imports of groundfish into the U.S. have increased steadily to the point that "Canada, as an exporter of fresh fish into the United States, is an extremely important rival of the United States fishing industry" (emphasis added: from "Current Developments in Ex-Vessel Groundfish Prices" University of Rhode Island Marine Memorandum 65, Feb. 1981). 1980 imports from Canada, for example, increased 5.6% over 1979 imports, continuing a long-standing trend. Total imports from

Canada in 1980 were in excess of 50 million pounds of fresh and fillet fish, or over 300 million pounds of fresh and frozen fish; thus the imports from Canada approximate the total groundfish landings in New England. Canadian imports loom very large indeed in the sale of groundfish in the United States.

4) Subsidies to the Canadian fishing industry:

Several studies have been made in recent years of the nature and extent of Canadian provincial and federal government subsidies to their fishing industry. The most thorough studies have been made by the University of Rhode Island Department of Resource Economics. Such subsidies cover a wide range of fishing-related activities such as fuel costs, vessel-construction costs, processing plant capital investments, export prices, port facilities, vocational training and fishing regulations such as limited entry, vessel class allocations and trip limits, all intended to affect vessel income. These subsidies are applied quite variably, in some cases, by the Canadian government; for example, export price subsidies may be applied at short notice and limited duration if Canadian fish inventories are high.

The U.S. Tariff Commission recently ruled that countervailing duties were not warranted on the basis of Canadian subsidies for vessel construction because the Canadian government promised to discontinue such subsidies. The Tariff Commission's ruling obviously ignored the fact that previously subsidized Canadian vessels are now fishing in competition with U.S. vessels, as are processing plants and similar physical facilities still functioning.

Because of the variability and wide-ranging nature of the Canadian subsidies, we do not have readily available an accurate estimate of the total magnitude of the subsidies. Suffice it to say that in 1976, for example, the Acting Commissioner of Customs did report that "... it tentatively has been determined that benefits have been received by Canadian exporters of certain fish which may constitute bounties or grants within the meaning of the Act." (Federal Register 41(196) Oct. 7, 1976).

5) Impacts on New England and Maine fishing industry:

Imports from Canada undoubtedly affect the New England fishing industry. To quote from the University of Rhode Island report cited earlier "... the problem of falling ex-vessel prices for groundfish is a result of squeezes from both the supply and demand sides of the market, with the fishermen --- caught in the middle. The large increases in landings in 1980 compared to 1979 and, to a lesser extent, the increases in imports from Canada have been the major factors in the growth in supply of fresh fish." (emphasis added).

6) Recommendation:

In view of the growing volume of Canadian imports, growing economic problems of the New England fishery, and continuing industry concern about the impact of subsidized imports from Canada, it is recommended that Congress direct the Tariff Commission to consider once again the applicability of countervailing duties to Canadian fish imports, to consider all evidence or to commission necessary analyses, and to report its findings fully to the New England coastal governors and the New England fishing industry. Only that process can reassure the New England fishing industry that their problems have received full consideration by the Tariff Commission.

SA/bj

Statement by Stevart N. Smith

Commissioner

Maine Department of Agriculture

Attached: Summary of government
assistance to the potato
industry in Maine, New
Brunswick, and Prince
Edward Island. (draft)

CANADIAN/MAINE AGRICULTURAL TRADE PROBLEMS

The primary problem of Maine agricultural trade from Canada is with the potato industry. Until recently the United States has been a net exporter of potatoes to Canada but the trend has been for Canada to increase its exports to the United States and for the United States to decrease its exports to Canada.[1] During the 1980-81 shipping season the United States shipped approximately 321,467,700 pounds of potatoes to Canada while Canada shipped 391,232,500 pounds of potatoes into this country. Of the Canadian shipments during that season approximately 234,792,000 pounds were designated as tablestock and 156,440,000 as seed.

The movement of potatoes through Maine and Maritime ports of entry are an even more dramatic indication of the changing balance of import and export. In 1980-81 U. S. potato exports through Maritime ports of entry totaled 30,536,200 pounds, 29,718,500 pounds of tablestock and 817,700 of seed[2], Canadian exports to the United States through Maine ports of entry totaled 239,200,000 pounds, 115,050,000 pounds designated as tablestock, 121,150,000 as seed.[3] The previous shipping season, the U. S. exported 21,080,000 pounds through the Maritimes and Canada exported 94,550,000 pounds of potatoes to the U. S. through Maine.

---

[1] There are discrepancies in the statistical data between U. S. and Canadian sources. In discussions between New Brunswick, Prince Edward Island, and Maine officials, it has been agreed to use United States data for potatoes imported to the United States and Canadian data for potatoes imported to Canada. Statistics in this report are based on this distinction from figures of U. S. Department of Commerce, Bureau of Census; Agriculture Canada Marketing Services Division.

[2] Canadian Customs Statistics for July 1 - June 30.

[3] U. S. Customs Statistics, September 19 - May 31.

These figures amply demonstrate the concerns of the Maine potato industry, not only because of the gross amount of trade between the countries but also because of the direction of that trade. A large part of the flow of potatoes from the United States to Canada occurs from our western potato producing states into western Canada whereas the flow of potatoes from Canada to the United States occurs in the east. Consequently, potato exports to Canada primarily benefit our western producers while Canadian exports to the United States primarily disadvantage the Maine and other Northeast producers.

This disadvantage is real. Canadian exports comprise a significant amount of our domestic markets. While Maine's market share has decreased Canada's has increased in certain east coast cities which are considered traditional Maine markets. Given the high inelasticity in demand for potatoes that additional supply has a negative impact on prices received by United States producers. The increased Canadian export potential has also created a perceived problem which is in many ways more troublesome than the real one. United States potato dealers who buy from growers and packers in the State of Maine also buy from growers and packers in Canada putting Maine farmers in the State of Maine in direct competition with their Canadian counterparts. When buying potatoes, the dealers will state that unless the Maine farmer comes in at a low enough price, the dealer will purchase potatoes from Canada. This direct threat of competition to decrease price, increases the perception of the problem and embitters Maine growers beyond the necessary impact.

There are several reasons why the potato trade between the U. S. and Canada is moving in favor of Canada. Certainly the outstanding reason is the exchange rate which has moved as high as 20 percent discount over the past marketing year. Potatoes which were priced as high as $10.00 per hundredweight have provided a very substantial difference in price because of the exchange rate which the Canadians were able to offer.

In addition to the exchange rate the Canadian potato industry has been encouraged to expand by development policies of the Canadian Provincial and Federal Governments. These policies have been implemented in terms of developmental programs whereby the Canadian governments have encouraged the production of potatoes through the use of a myriad of programs providing both direct subsidies and extensive financial and technical assistance. Officials of the State of Maine have been discussing the potato situation with their counterparts in New Brunswick and Prince Edward Island. One matter they have addressed is the comparison of governmental programs available to assist potato producers in each of the two countries. The programs include the availability of income support through price stabilization and grants for capital investment in such facilities as storage construction, direct assistance in providing fertilizer and disease protection programs, crop insurance, agricultural lending programs and interest subsidies, transportation rate assistance, export promotion, and others. It is abundantly clear that in terms of total funds actually committed to agricultural assistance the Canadian government has far outspent the U. S. in its efforts to encourage increased production of potatoes and increased marketing of the crop in the United States markets.[4] In fact, it is clear that at least some of the Provinces have an explicit policy to increase their sales of potatoes to the United States because of developmental programs and also because other provinces in Canada are encouraging more expansion for self-sufficiency. Indeed the discussion paper issued by the Canadians last July explicitly calls for both replacement of imported food with Canadian production and intensified market development in the U. S. and elsewhere.[5]

[4] A DRAFT of this paper is included with this testimony. We anticipate it to be available in final form by the end of the year and will provide copies at that time.

[5] Eugene Whalen. Challenge for Growth, an Agri Food Strategy for Canada. Agriculture Canada, July 1981.

At the same time that the Canadian government is encouraging increased agricultural production and some provinces are turning toward the United States to increase their market share under an exchange rate extremely favorable for them, the U. S. tariffs which might have provided some insulation are being reduced. The most recent round of GATT negotiations included adjustments in the tariff for potatoes coming into the United States from Canada. Prior to 1980, a quota was set for tablestock and seed at 450,000 hundredweight and 1.14 million hundredweight respectively. Within these volumes potatoes could move into this country at a 37½ cent per hundredweight tariff; potatoes exceeding the quota required a doubling of the tariff to 75 cents. The Tokyo round included a gradual reduction of the additional quota tariff from 75 cents to 35 cents, decreasing 5 cents per hundredweight per year. The quota tariff will be reduced from 37½ cents over the same period of time to 35 cents per hundredweight. Consequently during this period of time the over-quota potatoes tariff will be reduced from 75 cents to 35 cents. Considering a normal past price of potatoes during the past few years (excluding the extremely high level of 1980) of about $4.00 per hundredweight, the tariff reduction represents a price gain to Canadian producers of nearly 10 percent.

The tariff situation is made more problematical by the lack of true distinction between tablestock and seed. Once the tablestock quota is filled, Canadians ship potatoes into the U. S. properly tagged as seed which are in actuality destined for the tablestock market. Not only do they gain from a lower tariff but they also gain since seed potatoes designated as certified seed do not have to meet as stringent grade requirements as potatoes designated as tablestock. According to the Department of Commerce this practice is legal. There is currently no end use criteria for distinguishing which quota potatoes should be allocated. It is our strong conviction that this should be corrected and that potatoes intended and in fact used as tablestock should be required to be assigned to the tablestock quota, and only those intended and used for seed would be allowed to enter the seed quota.

In addition to this action we believe that the United States Government should be more helpful to the Maine potato industry, and indeed the national potato industry, in determining what actions may be available to it with respect to adjusting the tariff arrangements. We understand that there are several procedures available which might lead to some alteration in trade arrangements including proceedings under Section 301 of the Trade Act of 1974, and proceedings to institute penalties.

Unfortunately the Maine potato industry as well as agricultural industries in other states do not have the extensive economic and legal analytical capability necessary to address and seek implementation of any of these approaches that are supposedly available to it. We would suggest that the United States Department of Agriculture assist producer groups who believe they are being harmed by foreign imports in dealing with the federal procedures which might provide them relief. The U. S. Government has apparently taken such an initiative in filing complaints against foreign steel makers and should take a lead role to protect its agricultural community as well.

Finally, I also believe that the United States Government could be of assistance to the Maine potato industry in terms of helping it meet the Canadian competition. The most obvious means of assistance would be grants for programs similar to those that Canadian farmers receive. However, there are other types of assistance available that would be less costly to the federal government. I especially refer to assistance in market development through an increase in the market improvement fund program of the USDA as well as increased assistance directly in the area of export assistance. This can be both in terms of technical assistance as well as financial support for certain basic services necessary to export potatoes.

We welcome the opportunity to comment on this trade relationship which is extremely demoralizing to our potato farmers in the State of Maine. Overall, we believe that the Federal Government could allevate the situation by acting to change the trade relationship by adjusting tariff arrangements. This would bring immediate relief. We also believe that while the U. S. may not choose to meet the Canadian assistance programs dollar for dollar, there are true positive gains to be made if our Federal Government would provide stronger support for marketing programs for the State of Maine potato industry. We would encourage the Federal Government to respond to these needs before our industry in desperation seeks an alternative solution.

o O o

A SUMMARY OF GOVERNMENTAL ASSISTANCE PROGRAMS AVAILABLE TO POTATO PRODUCERS, PACKERS, PROCESSORS, AND DEALERS IN MAINE, NEW BRUNSWICK, AND PRINCE EDWARD ISLAND

Prepared for the
Marketing and Trade Committee

by the

New Brunswick Department of Agriculture and Rural Development
Prince Edward Island Department of Agriculture and Forestry
Agriculture Canada
Maine Department of Agriculture, Food, and Rural Resources

DRAFT

September, 1981

CONTENTS

PAGE
INTRODUCTION i
SUMMARY
PROGRAMS AVAILABLE TO MAINE POTATO INDUSTRY 1

PRODUCER ASSISTANCE

FEDERAL ASSISTANCE

  Agricultural Conservation Program 1
  Potato Diversion Program 2
  Farmers Home Administration 3-6
  Commodity Credit Corporation 7
  Farm Storage/Drying Equipment Loans 8
  Soil Conservation Service 9
  Crop Reporting Service 10

FEDERAL-STATE ASSISTANCE

  Maine Seed Potato Board 11
  University of Maine Extension Service 12

STATE ASSISTANCE

  Maine Seed Certification Program 13

MARKETING ASSISTANCE

FEDERAL ASSISTANCE

  U.S. Agricultural Marketing Service 14

FEDERAL-STATE

  Federal State Inspection Service 15
  Federal State Market News Service 16

PACKER/PROCESSOR ASSISTANCE

FEDERAL

  Economic Development Administration 17
    Title 1: Development Grants
    Title 2: Business Development Loans 18

FEDERAL - STATE - LOCAL

  Economic Development Administration 19
    Title 3: Technical Assistance
  Northern Maine Regional Planning Commission Revolving Loans 20
  Maine Guarantee Authority 20a

DRAFT

PROGRAMS AVAILABLE TO CANADIAN POTATO INDUSTRY

PAGE

PRODUCER ASSISTANCE

CANADIAN FEDERAL

Agricultural Stabilization Act 21
Fruit/Vegetable Storage Construction 22
Seed Inspection Service 23
Farm Credit Corporation 24
Advance Payment for Storage Crops 25

CANADIAN-PROVINCIAL

N.B. Crop Insurance Program 26
P.E.I. Crop Insurance Program 27
N.B. Farm Development Program 28
P.E.I. New Farmer Program 29
P.E.I. Family Farm Development Program 30

NEW BRUNSWICK

Agricultural Limestone Assistance 31
Family Farm Improvement 32
Farm Adjustment Act 33
Interest Subsidies 34
Farm Machinery Loans 35
Contracts - Disease Eradication 36
Potato Industry Evaluation and Education 37
Bon Accord Seed Potato Farm 38
Post Harvest Testing Program 39

PRINCE EDWARD ISLAND

Seed Incentive Program 40
Cull Burial Program 41
Potato Disinfection 42
Agricultural Limestone Incentive 43
Extension Service 44
Land Development Corporation 45
P.E.I. Lending Authority 46
Fox Island Seed Farm 47

MARKETING ASSISTANCE

CANADIAN FEDERAL

Department of Industry, Trade and Commerce Export Programs 48
Potatoes Canada 49
Atlantic Freight Assistance 50
Inspection - Tablestock 51

CANADIAN-PROVINCIAL

Extension Marketing 52

PACKER/PROCESSOR ASSISTANCE

CANADIAN FEDERAL

Regional Economic Expansion Program 53

INTRODUCTION

This report presents a summary of governmental assistance programs available to potato growers, packers, processors and dealers in Maine, New Brunswick, and Prince Edward Island. It was assembled upon the request of the Marketing and Trade Committee appointed by the Maine Commissioner of Agriculture and the Ministers of Agriculture in New Brunswick and Prince Edward Island. Information was compiled through a joint effort by staff of the New Brunswick and Prince Edward Island Departments of Agriculture, the Canadian Federal Department of Agriculture, and the Maine Department of Agriculture, Food, and Rural Resources.

The purpose of the report is to provide a factual background on which to base discussions relative to Canadian and Maine potato trade issues. A general description of the programs, eligibility requirements, sources of funding, degree of utilization, and annual budgets are provided, to the extent possible, for each program. For programs which encompass more than the potato industry, an attempt has been made to distinguish participation and funding received by this sector.

In compiling the report, the authors agreed to exclude programs which were solely funded by the respective Canadian or Maine potato industries; programs involving general research available to members of either the Maine or Canadian potato industries; programs related to pollution control; and programs related to tax relief. In deciding to omit tax relief programs, the authors compared relative income and property tax rates and found no significant differences, and similarly, found equivalent mechanisms were available to reduce tax liabilities in Maine and Canada. A discussion of relative tax liabilities is relevant to a discussion of government subsidies only if it describes a differential in the net effect that government programs have on the potato industry. No such differential was discovered.

The report is organized into two major sections: "Programs available to the Maine Potato Industry", and "Programs available to the Canadian Potato Industry." Within each of these sections, programs are arranged to reflect the beneficiary group: "Producer Assistance," "Marketing Assistance," and "Packer/Processor Assistance." Individual program summaries are keyed at the top of the page to reflect this organizational scheme, and to further categorize the type of program -- cost-share, grant, loan, technical service, etc. -- and the source of funding, i.e. Canadian Federal, United States, Maine, New Brunswick, Prince Edward Island, or some combination.

SUMMARY

THE MAINE POTATO INDUSTRY

Maine has always been the largest potato producer in New England, and is also the third largest producer in the United States. In Maine, cash receipts from farm marketings of potatoes represents about 20 percent of all cash farm marketings.

Within Maine, the potato industry is concentrated in Aroostook County, where 90 percent of all potatoes produced in the State are grown, and 85 percent of the growers reside.

Since 1975, acreage harvested has averaged 114,00 acres, yields have averaged 238 hundredweight per acre, and total production has averaged 26,867,500 cwt. Of this total production, an average of 2,650,000 cwt is used for seed. In 1980, acreage harvested was 104,000 acres with an average yield of 240 cwt/acre, and production totalled 24,960,000 cwt.

THE NEW BRUNSWICK POTATO INDUSTRY

The potato industry is of major importance in New Brunswick agriculture. This industry accounted for one-third of the farm cash receipts in the Province between 1969 and 1978 and totalled $31 million in 1980.

New Brunswick accounts for approximately one-quarter of the total Canadian production and has been the largest single producer of potatoes in Canada.

On average, 55,000 acres (22,000 ha.) of potatoes are planted annually producing a total of 12 million cwt. (544,320 tonnes) or a yield of 218 cwt. per acre (24.5 tonnes.ha.). 1980's production is estimated at 11,700,000 cwt. (530,712 tonnes) from 52,000 acres (20,800 ha.) and an average yield of 225 cwt. (10,206 kg.).

THE PRINCE EDWARD ISLAND POTATO INDUSTRY

The potato industry is Prince Edward Island's largest crop industry, accounting for nearly $45 million in cash farm receipts in 1980; which represents approximately 30% of the province's farm cash receipts. Since 1975, receipts have ranged from $24.9 million to $48.8 million, and have averaged $35 million.

Acreage planted in 1979, 1980, and 1981 has totalled 61,000 acres; 56,000 acres; and 60,000 acres respectively. Yields amounted to 249 cwt/acre in 1979 and 235 cwt/acre in 1980, for a total production of 15,195,000 cwt in 1979 and 13,160,000 cwt in 1980.

DRAFT

PART I

GOVERNMENTAL ASSISTANCE PROGRAMS
AVAILABLE TO
THE MAINE POTATO INDUSTRY

PRODUCER ASSISTANCE:
COST-SHARE

UNITED STATES

TITLE: Agricultural Conservation Program

DESCRIPTION: This Federal program, authorized in 1936 by the U.S. Soil Conservation and Domestic Allotment Act, provides farmers with government cost-sharing towards the cost of carrying out pollution abatement, soil, water, woodland, and wildlife conservation practices on farmland. To be eligible, farmers must be cooperators with their local county Soil and Water Conservation District, and practices must meet specifications defined by the U.S. Soil Conservation Service.

FUNDING: The maximum yearly amount available to individual farmers was $2,500 until 1979 when it was increased to $3,500. The Federal cost-sharing rate ranges from 50% to 75% depending on the practice.

Since 1977, the annual federal appropriation for this program has been $190 million. In the State of Maine, $2 to $3 million has been expended annually, with Aroostook County accounting for 25% to 30% of total expenditures in the State.

In 1979, federal payments to farmers in Aroostook County totalled $854,150 of which approximately $830,570 was paid for practices applicable to potato farmers. In 1980, Aroostook County farmers received $807,194 with $789,880, applicable to potato growers. Administrative costs added another $161,185 in 1979 and $167,904 in 1980 to the cost of the Aroostook County ACP Program.

PRODUCER ASSISTANCE: UNITED STATES
INCOME SUPPORT

TITLE: Livestock Feed-Potato Diversion Program

DESCRIPTION: This program allows the federal government to make payments to potato farmers for diverting potatoes to livestock feed or starch in surplus years to avoid depressing prices due to oversupply. In order to be eligible for the program, potatoes have to meet a specific grade requirement and then be processed for feeding to livestock to insure the potatoes will not enter normal trade channels. This program is authorized by Section 32 of the Agricultural Marketing Act of 1946.

Monies paid to growers for diversion of potatoes are derived from a federal pool created by import tariffs. The Food Safety and Quality Service of the USDA initiates a request for funds which is subject to approval by the Secretary of Agriculture. Responsibility for this program now resides with the Agricultural Marketing Service.

UTILIZATION: The Potato Diversion Program has only been used twice in the last decade.

BUDGET: In 1979, over 140 Aroostook County farmers signed up for the program which diverted 1.45 million hundredweight of potatoes. Farmers were reimbursed at a rate of $2.20/cwt during the first 30 days and $1.70/cwt during the final 30 days for a total of $3,233,124 in payments. In 1980, the program was again approved to benefit 118 farmers who diverted .5 million hundredweight and were reimbursed $2.25/cwt for a total of $1,105,827.

PRODUCER ASSISTANCE:
LOANS

UNITED STATES

TITLE: Farmers Home Administration Loans: Ownership Loans

DESCRIPTION: These loans may be obtained for the purchase, enlargement, or development of farms, which will not exceed the size of a family-type unit. Such loans also may be used to refinance debts and to finance a small, non-farm enterprise, when it is necessary to supplement the farm income to provide the individual with a reasonable standard of living. The interest rate is determined annually, and a loan may be amortized over a period not to exceed 40 years.

ELIGIBILITY: Loans may be made to eligible individuals, cooperatives, corporations and partnerships. Also, Farm Ownership loans may be made at lower interest rates to eligible limited-resource applicants. Such applicants are those with low incomes, who are operators of small farms. They are handicapped by such factors as limited education, low managerial skills, lack of adequate land and other capital items, low producing farms and economic conditions.

BUDGET: FUNDING LEVELS AND INTEREST RATES ARE SHOWN FOR FISCAL YEARS 1979-81 FOR AROOSTOOK COUNTY:

FY	Total $	Regular Loans		Limited Resource	
		$	rate, %	$	rate, %
1979	1,018,900	652,200	8½-9	366,700	3
1980	1,753,100	1,270,000	10-12	483,100	4-5
1981*	1,568,200	1,164,700	12½-13½	403,500	5

*through June 1981

PRODUCER ASSISTANCE: UNITED STATES

LOANS

TITLE: Farmers Home Administration Operating Loans:

DESCRIPTION: Operating loans may be made to provide financing for the operation of farm enterprises, not exceeding the family-type unit. Loan funds may be used for annual operating expenses, purchasing livestock and equipment, refinancing debts, nonfarm enterprises, home operations, etc. The interest rate is determined annually and loans may be written for a period not to exceed 7 years, with a 7-year renewal feature. Loans may be made at a lower interest rate to eligible, limited-resource applicants, as defined under Farm Ownership loans, above.

BUDGET: FUNDING LEVELS AND INTEREST RATES FOR FISCAL YEARS 1979-81 FOR AROOSTOOK COUNTY:

		Regular Loans		Limited Resource	
FY	Total $	$	rate %	$	rate %
1979	4,484,690	4,010,000	8½-9½	474,690	5
1980	4,602,370	4,028,720	10½-12½	573,650	6-7
1981*	4,792,890	3,737,460	13 -14½	1,055,430	7

*through June 1981

PRODUCER ASSISTANCE:
LOANS

UNITED STATES

TITLE: Farmers Home Administration Economic Emergency Loans

DESCRIPTION: This loan program was authorized in 1978 under Public Law 95-334. It expires in September, 1981. The objective of the Economic Emergency loan program is to make adequate, financial assistance available to bonafide farmers and ranchers who are primarily and directly engaged in agricultural production, so that they may continue their normal, farming or ranching operations during the economic emergency which has caused a lack of agricultural credit, due to national or area-wide economic stress, such as a general tightening of agricultural credit or an unfavorable relationship between production costs and prices received for agricultural commodities. It is the policy to consider making guaranteed Economic Emergency loans and further to fully participate with the applicants normal agricultural lender when making insured Economic Emergency loans. Loan funds may be used for either real estate or operating purposes, and written for a period, not to exceed 40 years, depending on the purpose of the loan.

ELIGIBILITY: There is no restriction on the size of the farm operation, and loans may be made to individuals, cooperatives, corporations or partnerships. The principal balance outstanding at any time may not exceed $650,000.

BUDGET: FUNDING LEVELS AND INTEREST RATES ARE SHOWN FOR FISCAL YEARS 1979-81 FOR AROOSTOOK COUNTY:

FY	Total $	Interest Rates Operating	Real Estate
1979	3,154,840	8½ - 9½	8½ -9
1980	5,095,570	10½ - 14	10 - 14
1981*	4,614,400	13 - 14 3/4	12½-13½

*through June 1981

PRODUCER ASSISTANCE: UNITED STATES

LOANS

TITLE: Farmers Home Administration Emergency Loans

DESCRIPTION: In the event that a natural disaster causes serious agricultural losses, the area affected may be designated for emergency loan benefits. The purpose of such financing is to assist eligible applicants, who have sustained losses, to continue normal farming operations and return to other sources of credit as soon as possible. Loans may be made for annual operating purposes, and to make a major adjustment in a farm operation. Loans may be written for periods not to exceed 40 years, depending on loan purpose and security.

BUDGET: FUNDING LEVELS AND INTEREST RATES FOR FISCAL YEARS 1979-81 FOR AROOSTOOK COUNTY:

		Interest Rates	
FY	Total $	Actual Loss	% Operating Exp.
1979	18,800,720	5	7½ - 9½
1980	18,175,870	5	10½ - 14
1981*	18,222,730	5	12½ - 15

*through June 1981

PRODUCER ASSISTANCE:
LOANS

UNITED STATES

TITLE: Agricultural Stabilization and Conservation Service (ASCS) Commodity Loan Program

DESCRIPTION: This program was established to help foster the orderly marketing of certain agricultural crops. Oats constitute the only crop affected in Aroostook County. This affects potato growers who grow oats as a rotation crop. The loan program allows eligible producers to take out a loan and hold their commodity to sell when the market may be more favorable. The loans are made directly to a producer with the commodity put up as collateral. When the loan matures, no later than 9 months, the producer may either repay the loan plus interest or forfeit the commodity to the Commodity Credit Corporation. The loan thus represents a price support, guaranteeing farmers a minimum price.

In Fiscal Year 1979, Aroostook County farmers obtained Commodity Loans for nine percent interest. Rates rose to 13% in April 1980, and currently are 14½%. A variable interest rate is now in effect. Loans will be issued at the cost of money to the government. Currently, the loans are being based on $1.36/bu. The market price projected for next spring is $1.80 - $2.00/bu. In very few cases has it been to the farmers advantage to forfeit the crop to the government. On a national basis the average support price has generally been less than the average market price. Thus this program is considered a loan subsidy, not a direct subsidy.

FUNDING: Unknown

PRODUCER ASSISTANCE: UNITED STATES

LOANS

TITLE: Agricultural Stabilization and Conservation Service, Farm Storage Facility and Drying Equipment Loan Program

DESCRIPTION: This program offers loans to help farmers buy, build or remodel on-farm storage facilities and to obtain the drying and handling equipment they need. Need for eligible storage structures, which include conventional bins, multipurpose structures, upright silo-type structures and horizontal type bunker silos, is based on two years production, minus existing storage capacity. Operating equipment essential to the operation of the storage or drying unit may be included in the loan.

In Fiscal Year 1979, the maximum loan was 85 percent of the cost of the structure and equipment. The remaining 15 percent of the cost was paid by the farmer before the loan is disbursed.

A loan amount or the outstanding loan balance with any farmer was limited to $50,000. Loan repayment terms allowed for a maximum of seven equal annual installments over a period of eight years. The rate for loans based on applications filed by close of business March 21, 1979, was 7 percent per annum. The rate for loans based on applications filed after March 21, 1979, was 10.5 percent per annum.

In Fiscal Year 1981, the program was altered slightly. The maximum loan has been reduced to 75% of the cost. Farmers can borrow up to $50,000 with 25 percent down and 14.5 percent interest. The loans will be subject to adjustment in the interest rate each October 1 and April 1. Repayment of the loan is made through annual installments over a five-year period.

BUDGET: In the 1979 Fiscal Year, 8 farmers in Aroostook County received $118,744 in loans through this program. In Fiscal Year 1980, 28 farmers in the County had outstanding loans in the amount of $378,410.

PRODUCER ASSISTANCE:
MANAGEMENT CONSULTING

UNITED STATES

TITLE:	U.S. Soil Conservation Service (SCS)
DESCRIPTION:	The SCS is a federal agency within the USDA whose mandate is to provide technical assistance to farmers towards the reduction of soil loss and improvement of water-quality. This agency works through cooperative agreements with local Soil and Water Conservation Districts. About one-third of the State's potato farmers utilize this service.
BUDGET:	Approximately $250,000/year.
COMMENTS:	State and local funds supporting the 3 Conservation Districts in Aroostook County approximate $6,600/year.

PRODUCER ASSISTANCE: UNITED STATES
INFORMATION

TITLE: U.S. Crop Reporting Service:

DESCRIPTION: An agency within the U.S. Department of Agriculture, the Crop Reporting Service reports production statistics on various agricultural crops including potatoes. This information is available to all potato farmers; utilization is high.

FUNDING: Funds are appropriated on a national basis for the program as a whole; the contribution of Federal resources benefitting Maine potato farmers is estimated at approximately $35,000 to $40,000 annually.

PRODUCER ASSISTANCE:
TECHNICAL SERVICES

MAINE/UNITED STATES

TITLE: Maine Seed Potato Board

DESCRIPTION: This Board was established by the Maine Legislature to produce seed potatoes for distribution and sale to Maine potato growers, and to guide work on improving the quality of Maine seed potatoes.

BUDGET: Until the recent past, the Board's facilities and activities have been funded through industry taxes. In 1980, an Economic Development Administration grant of $95,000 was obtained for construction of a Disease Control Building at the Porter Farm, matched by $20,000 in industry money.

DRAFT

PRODUCER ASSISTANCE: MANAGEMENT CONSULTING

MAINE/USA

TITLE: University of Maine Cooperative Extension Service

DESCRIPTION: This service provides educational assistance to potato growers related to all aspects of production and marketing including farm management, pest management, engineering and financial technical assistance. The Service maintains 4-5 potato specialists to serve the industry.

FUNDING: The cost of the Service, approximately $150,000 annually, is jointly shared by the Federal government (50%), State government (40%), and County government (10%).

DRAFT

PRODUCER ASSISTANCE:
TECHNICAL SERVICES

MAINE

TITLE: Maine State Seed Potato Certification Program

DESCRIPTION: A major activity of the Division of Plant Industry within the Maine Department of Agriculture is the certification of seed potatoes. A crew of 14 year-round seed inspectors, supplemented by 20 additional inspectors in the summer, is responsible for testing seed plots for State certification.

FUNDING: Although this activity is funded through the collection of industry taxes, the State contributes approximately one man-year annually in administrative services towards this and other programs related to potatoes.

MARKETING ASSISTANCE: UNITED STATES

RESEARCH, PROMOTION

TITLE: U.S. Agricultural Marketing Service Research/ Development Grants:

DESCRIPTION: Three federal grants have been awarded to assist the Maine potato industry since 1977. These grants provided funds to study transportation alternatives for marketing potatoes, to investigate and facilitate foreign export of potatoes, and to improve the sales and marketing structure of the industry.

BUDGET: Total for the three grants: $107,000.

MARKETING ASSISTANCE: MAINE/USA

INSPECTIONS

TITLE: Federal-State Inspection Service

DESCRIPTION: This program provides the potato industry with a voluntary inspection service funded by fees paid by the users of the program. In 1980, this service was utilized by an estimated 20% of the growers, although in prior years, utilization has been on the order of 75-80%.

FUNDING: As a result of recent legislation, the State of Maine will contribute approximately $100,000 to the program in 1981-82 and $120,000 in 1982-83 in order to reduce the cost to the users and obtain greater participation.

DRAFT

MARKETING ASSISTANCE: INFORMATION

MAINE/USA

TITLE: Federal-State Market News Service

DESCRIPTION: This program, jointly funded by the State of Maine and the USDA, issues a daily potato bulletin which provides market price information, supply/demand indicators, and information on terminal and shippiny point markets. The bulletin has a circulation of 700-900.

BUDGET: The State of Maine contributes $18,500 annually to the Service. The Federal contribution is unknown.

PACKER/PROCESSOR ASSISTANCE: **UNITED STATES**

DEVELOPMENT GRANTS

TITLE:	Economic Development Administration Title 1: Public Works and Development Facility Grants
DESCRIPTION:	This program provides direct grants to state and local governments, and cooperatives for construction of facilities.
FUNDING:	This program provided $1.5 million to the Colby Cooperative Starch Company towards the construction of a $9.0 million facility.
COMMENTS:	Application of this program to the potato industry has been limited, and future programs are doubtful given recent cutbacks in EDA funding.

DRAFT

PACKER/PROCESSOR ASSISTANCE: UNITED STATES

LOANS

TITLE:	Economic Development Administration Title 2: Business Development Loans
DESCRIPTION:	This program provides loans to private businesses for working capital or fixed assets.
UTILIZATION:	Two potato processors have been assisted by this program in Aroostook County.
FUNDING:	Approximately $5 million has been advanced to Maine processors.
COMMENTS:	Federal cutbacks in this program will likely severely limit future use in Maine.

PACKER/PROCESSOR ASSISTANCE:
PLANNING

UNITED STATES/NORTHERN MAINE
REGIONAL PLANNING COMMISSION

TITLE: Economic Development Administration
Title 3: Technical Assistance and Research

DESCRIPTION: Grants are issued through this program to state and local governments and designated development districts for research and planning. The Northern Maine Development District, staffed by the Northern Maine Regional Planning Commission, has conducted several programs assisted by EDA Title 3 grants:

Agricultural Diversification Program - This program is intended to develop agricultural industries which allow the potato farmers to diversify in order to improve economic stability and better conserve the soil resource which is presently deteriorating due to a potato monoculture. Such alternatives as livestock, and small grain production are being investigated.

Small Business Finance and Market Advisory Program - This program provides present and prospective Small Business firms with professional assistance and counsel on guaging the success-potential of business development ideas, on the most likely sources of financial assistance, and on preparation of funding applications packages.

PACKER/PROCESSOR ASSISTANCE: PLANNING

UNITED STATES/NORTHERN MAINE REGIONAL PLANNING COMMISSION

TITLE: Economic Development Administration
Title 3: Technical Assistance and Research

DESCRIPTION: Grants are issued through this program to state and local governments and designated development districts for research and planning. The Northern Maine Development District, staffed by the Northern Maine Regional Planning Commission, has conducted several programs assisted by EDA Title 3 grants:

Agricultural Diversification Program - This program is intended to develop agricultural industries which allow the potato farmers to diversify in order to improve economic stability and better conserve the soil resource which is presently deteriorating due to a potato monoculture. Such alternatives as livestock, and small grain production are being investigated.

Small Business Finance and Market Advisory Program - This program provides present and prospective Small Business firms with professional assistance and counsel on guaging the success-potential of business development ideas, on the most likely sources of financial assistance, and on preparation of funding applications packages.

COMMENTS: Federal cutbacks in this program will likely severely limit future use in Maine.

PACKER/PROCESSOR ASSISTANCE:
LOANS, PLANNING

NORTHERN MAINE REGIONAL PLANNING
COMMISSION/U.S. (EDA)/MAINE

TITLE: Revolving Loan Fund

DESCRIPTION: The Northern Maine Regional Planning Commission includes an economic planning and development division which assists local units of government, businesses and industries. This agency has been instrumental in obtaining numerous federal grants and loans to develop the Northern Maine economy. The revolving loan program was established using Economic Development Administration funds, and State of Maine funds, and offers a source of low-interest, supplemental loans for promising new business ventures and expansions. Loans are limited to 20% of the total project cost.

FUNDING: An initial EDA grant of $750,000 enabled the program to get started, and a continuation grant of $500,000 from EDA was added for the second year of the program. The latter sum required a local matching portion of $100,000, half of which has been pledged by the State of Maine.

UTILIZATION: Loans of over $1. million have been approved including 2 loans for potato packing sheds totalling $113,500.

DRAFT

PACKER/PROCESSOR ASSISTANCE — MAINE

LOANS

TITLE: Maine Guarantee Authority

DESCRIPTION: This State authority guarantees first mortgage loans and administers Industrial Development Bond financing - a program which finances development programs through municipally issued bonds and which enjoy certain federal tax exemptions.

FUNDING: Since 1961, the MGA has guaranteed 5 loans totalling $9.5 million issued to potato processors. In addition, it has administered approximately $3.0 million in Industrial Development Bonds.

DRAFT

PART II

GOVERNMENTAL ASSISTANCE PROGRAMS AVAILABLE TO THE CANADIAN - MARITIME POTATO INDUSTRY

DRAFT

PRODUCER ASSISTANCE: CANADIAN FEDERAL

INCOME SUPPORT

TITLE: Agricultural Stabilization Act

DESCRIPTION: Producers may make application to the Minister of Agriculture to request that their crop be "designated" for deficiency payments.

The Act provides for payments to producers to stabilize returns at a level of 90% of the previous five year average adjusted by any increase or decrease in the cost of production over the previous five year average cost. Regional programs are considered if specific conditions affected one area more than others.

ELIGIBILITY: Individual producers are eligible for assistance with maximum payments to apply according to criteria established by the Agricultural Stabilization Board.

BUDGET: The annual budget includes an estimate for total cost for products "named" in the Act as well as for "designated" products. Each program is approved separately by Treasury Board.

Stabilization payments were made to producers in Eastern Canada on the 1979 crop but not for 1980. Preliminary estimates for payments to potato farmers in N.B. and P.E.I. for 1979 crop year amount to $5.5 million.

COMMENTS: The Agricultural Products Board has authority under comparison legislation to purchase product or otherwise to facilitate disposal of product if market conditions can be improved.

PRODUCER ASSISTANCE: CANADIAN-FEDERAL
COST-SHARE

TITLE: Fruit & Vegetable Storage Construction Financial Assistance

DESCRIPTION: Assistance for construction of new storage or renovation of existing storage which will extent the storage period and/or retain quality of storable produce at an improved level.

ELIGIBILITY: Producer groups of 3 or more primary producers are eligible for up to one third of the total cost of the project but not to exceed 500,000 for any single project.

FUNDING: The total annual program budget has ranged from $1 - 3.5 million since the inception of the program in 1973. Approximately $230,000 has been issued to three producer groups in P.E.I. and N.B. to date.

UTILIZATION: Utilization of the program has been 50% plus for apple storages, 30% for potato storages and the balance for carrot, onion, cabbage, horseradish, rutabaga and pears. Regional utilization has been 45% to British Columbia, 5% Alberta, 10% Manitoba, 20% Ontario, 15% in Quebec and 5% for New Brunswick, Nova Scotia and Prince Edward Island.

COMMENTS: The program has not been readily accepted by potato producers in P.E.I. and N.B. who have been reluctant to form up into producer groups to become eligible.

PRODUCER ASSISTANCE: CANADIAN-FEDERAL

TECHNICAL SERVICES

TITLE: Inspection Services - Seed

DESCRIPTION: Agriculture Canada through Plant Quarantine Division of the Food Production and Inspection Branch, provides field storage and laboratory examination of seed potatoes.

FUNDING: This service has been free but currently a Seed Potato Quality Program is being initiated which will include user-pay provisions on a shared cost system.

PRODUCER ASSISTANCE:
LOANS

CANADIAN FEDERAL

TITLE:	Farm Credit Corporation Loans
DESCRIPTION:	The Farm Credit Corporation is a Crown agency established to make loans to farmers at interest rates fixed semi-annually on the basis of a six month bond market returns. The chartered banks arrange and administer the loans.
ELIGIBILITY:	Farmers are eligible for loans up to $200,000 maximum depending on collateral to back the loan.
BUDGET:	Set annually to accommodate a percentage of projected requirements.
UTILIZATION:	The loan limits are fully subscribed at all times with a waiting list.
COMMENTS:	Most potato producers apply to F.C.C. for operating loans to carry their credit needs during the production season.

TITLE: Advance Payments for Storage Crops

DESCRIPTION: Agriculture Canada agrees to pay the interest on loans to producers who as an association undertake to market their produce in an orderly marketing scheme through specified purchases and to repay the principal amount of the loan as sales are made.

ELIGIBILITY: A group of producers formed up into a legal organization to represent a significant portion of production in an area.

BUDGET: Annual budget is $3,000,000 for all storable crops. Potato producers in P.E.I. and N.B. received $350,960 in 1980.

UTILIZATION: 360 growers in P.E.I. and N.B. took advantage of the program in 1980.

PRODUCER ASSISTANCE: CROP INSURANCE

CANADA-NEW BRUNSWICK

TITLE: N.B. Crop Insurance Program (Potatoes)

DESCRIPTION: The Crop Insurance Program is designed to stabilize the income of farmers by insurance against crop loss due to natural hazards over which they have no control.

Potato crops may be insured at either 70% or 80% of the established yield (usually a six year average). The premium rate on potato coverage is 9% of the value of the crop of which the Federal government pays 50%. The N.B. Department of Agriculture administers the program.

ELIGIBILITY: In order to qualify for coverage, growers must:

1. Plant certified or better seed.
2. Insure all potato acreage.
3. Complete planting by June 15th.
4. Complete harvest by October 15th for Netted Gems or October 10th for other varieties.
5. Follow recommended and acceptable cultural and crop protection practices.

UTILIZATION: In 1980, 10,532 acres of potatoes or approximately 20% of the total provincial potato acreage was insured. From 119 accounts, total coverage amounted to $6,111,395. Preliminary figures for 1981 indicate a slight increase in these numbers. Total claims paid for 1980 amounted to $575,000, slightly in excess of the total premiums paid in that year.

COMMENTS: Special coverage is available to seed potato growers with slightly higher coverage and premium rates.

PRODUCER ASSISTANCE: CANADA-PRINCE EDWARD ISLAND
CROP INSURANCE

TITLE: P.E.I. Crop Insurance Program (Potatoes)

DESCRIPTION: The Crop Insurance Program is designed to stabilize the income of farmers by insurance against crop loss due to natural hazards over which they have no control.

Potato crops may be insured at either 70% or 80% of the established yield (usually a six year average) at a selected value of $3.00, $3.50 or $4.00 in the case of 70% coverage or $2.50, $3.00 or $3.50 in the case of 80% coverage. For 70% coverage, the average premium rate is 8.2% and for 80% coverage, it is 10%. Assuming, for example, an established yield of 200 cwt. and 80% coverage at the $3.00 rate, the premium would be

$$200 \times \frac{80}{100} \times 3.00 \times \frac{10}{100} \text{ or } \$48.00$$

per acre, half of which is paid by the federal government. The P.E.I. Crop Insurance Agency administers the program.

ELIGIBILITY: In order to qualify for coverage, growers must

1. Plant certified or better seed.
2. Insure all potato acreage.
3. Complete planting by June 15. (June 10 for Gems and Sebagoes)
4. Complete harvest by October 15.
5. Follow recommended and acceptable cultural and crop protection practices.

UTILIZATION: In 1980, about 28,000 acres of potatoes or half of the total provincial potato acreage was insured. From 247 accounts, total coverage amounted to $14. million and premiums paid totalled $651,000.

COMMENTS: Special coverage is available to seed potato growers with slightly higher coverage and premium rates. A Bacterial Ring Rot Rider is also available and provides $30 per acre to defray costs of clean-up.

PRODUCER ASSISTANCE:
GRANTS, MGT. CONSULTING

CANADA-NEW BRUNSWICK

TITLE: Farm Development Program

DESCRIPTION: The Farm Development Program provides a farm management counselling service to assist farmers in planning and implementing activities which will improve the viability of the farm unit. The Program also provided a grant to assist in providing a portion of new capital requirements to a maximum of $25,000 on a matching dollar basis.

The program is funded through the Agricultural Sub Agreement.

ELIGIBILITY: All farmers, whether full-time or part-time who are establishing a viable operation or improving or expanding to a more viable operation are eligible for assistance.

BUDGET: Funds available for this program have been totally committed. $14.6 million was budgeted, $11.1 million has been expended. $20.0 million in grants has been approved. Of this, $1.7 million in grants has been paid to potato growers.

Over the period of the Agreement, approximately 80% of total funding was for land clearing, buildings and machinery.

DRAFT

PRODUCER ASSISTANCE:
GRANTS, MGT. CONSULTING

CANADA-PRINCE EDWARD ISLAND

TITLE:	New Farmer Program
DESCRIPTION:	Under this Program qualified residents who are establishing a farm for the first time are eligible to receive up to $25,000 on a matching dollar basis as a forgiveable loan together with advice and assistance in making other financing arrangement and technical advice and training in preparing a general farm management plan.
UTILIZATION:	During 1976-81, 51 farmers participated whose primary production was potatoes.
BUDGET:	Approximately $880,000 was advanced for the period 1976-81.

PRODUCER ASSISTANCE: CANADA-PRINCE EDWARD ISLAND

GRANTS, MGT./TECHNICAL CONSULTING

TITLE: Family Farm-Development Program

DESCRIPTION: Under this Program, qualified residents may receive, on a dollar matching basis, up to $25,000 as performance grant assistance in establishing a farm or $15,000 for further developing an established farm. The program is aimed at providing an integrated package of financial assistance and the technical support necessary to assist farmers in improving their skills as producers and farm managers.

UTILIZATION: During 1976-81, approximately 200 producers whose primary production was potatoes participated in the program.

FUNDING: Approximately $2.9 million was advanced to producers in 1976-81.

DRAFT

PRODUCER ASSISTANCE:　　　　NEW BRUNSWICK

COST-SHARE, TECHNICAL SERVICE

TITLE:	Agricultural Limestone Assistance
DESCRIPTION:	The objective of the Agricultural Limestone Program is to encourage the establishment of sound liming practices by providing a free soil analysis service and a contribution towards the cost of limestone transportation from the plant to the farm. Assistance rate schedules are established based on mode of transportation and distance hauled.
ELIGIBILITY:	The program is available to all farmers engaged in commercial crop production. To qualify for assistance, purchasers are required to submit a soil sample for analysis.
BUDGET:	$430,000 has been budgeted for 1981-82. In 1980-81, $346,000 was paid on approximately 49,000 tons of lime.
UTILIZATION:	Although available to potato growers, this program would not be used extensively.

DRAFT

PRODUCER ASSISTANCE: NEW BRUNSWICK

COST-SHARE

TITLE: Family Farm Improvement Program

DESCRIPTION: The purpose of this program is to assist farmers by providing some of the capital required to improve land and buildings. The program is designed to provide incentive programs that will result in the optimum development of individual farm enterprises. The maximum contribution under all sub-programs shall not exceed $10,000.

ELIGIBILITY: Small and part-time farmers that have met the census definition of a commercial farmer.

Projects eligible for assistance include: land improvement, erosion protection and stream pollution control.

BUDGET: $4,000 budgeted for 1981-82.

UTILIZATION: Very little use is being made of this program. The majority of the farm development is being carried out under the Farm Development Program.

DRAFT

PRODUCER ASSISTANCE: NEW BRUNSWICK

LOANS, LAND LEASES

TITLE: Farm Adjustment Act

DESCRIPTION: The Farm Adjustment Board provides loans and leases land to full and part-time farmers at low interest and rental rates, to assist farmers in establishing and maintaining economic farm units.

The Board may grant loans on the following terms and conditions:

a) The Board must be satisfied that farmers have the necessary abilities to establish themselves economically;
b) The amount and term of the loan will be determined by the Board; and
c) Interest shall be 5% per annum on loans approved prior to January 24, 1980, and the Provincial Lending Rate in effect on loans approved after January 24, 1980.

ELIGIBILITY: The Board may grant loans to full and part-time farmers if:

a) The Board is satisfied that a loan will effectively establish the farmer on an economic farm unit; and
b) The Board is satisfied that the applicant has the necessary ability, skill and knowledge to operate his holding in accordance with a mutually agreed management plan.

BUDGET: $11 million in loans and advances has been budgeted for 1981-82; during the fiscal year 1980-81, the Board disbursed $12.8 million. Of this amount, $12.3 was in the form of secured loans and $.5 million was expended for the acquisition of land to be leased to farm operators.

DRAFT

TITLE: Interest Subsidies

DESCRIPTION: The Government of New Brunswick, through the Farm Adjustment Board, contributes towards interest payments on loans obtained by New Brunswick farmers from the Farm Credit Corporation, the Veterans Land Act and to new applicants of F.A.B. loans. Subsidies are computed on the basis of ½ of the difference between 5% and the actual loan rate to a maximum subsidy of 3%.

BUDGET: For 1981-82, budget allocations are:

F.C.C. Interest Subsidy	$1,307,100
V.L.A. Interest Subsidy	15,000
F.A.B. Interest Subsidy	991,400

In 1980-81, $1.2 million was contributed toward F.C.C. interest payments and $10,842 went towards V.L.A. subsidies.

DRAFT

PRODUCER ASSISTANCE: **NEW BRUNSWICK**

LOANS

TITLE: Farm Machinery Loans Act

DESCRIPTION: The objective of this program is to assist N.B. farmers in obtaining credit for the purchase of farm machinery and equipment. The Department of Agriculture guarantees bank and credit union loans of from $1,500 to $30,000 at prime plus 1% for 75% of the purchase price of machinery and equipment.

ELIGIBILITY: All N.B. farmer-producers.

FUNDING: Under this Act, 64 loans were made in 1980-81 for a total of $221,851. To date, loans have been made involving $4.7 million.

DRAFT

PRODUCER ASSISTANCE:
TECHNICAL SERVICES

NEW BRUNSWICK

TITLE: Contracts Program

DESCRIPTION: Funds are provided to the N.B. Potato Agency to conduct two programs.

1) Mandatory disinfection service for storages and cull piles according to the provisions of the Potato Disease Eradication Act.

2) To conduct a Potato Disease Survey and to certify areas which are free from ringrot.

BUDGET: 1981-82 - $80,000.

DRAFT

PRODUCER ASSISTANCE: NEW BRUNSWICK

TECHNICAL SERVICES, MGT. CONSULTING

TITLE: Potato Industry Evaluation & Education

DESCRIPTION: This is a comprehensive program which is designed to develop, evaluate and communicate new and existing technologies for the potato industry in N.B. Activities carried out under this program include:

1) Wicklow Resource Centre - Provides staff as resource people in the areas of potato production, entomology, pathology, soil management and storage management.

2) Plot Work - Soil management and fertility testing.

3) Production Records - Information is gathered and assembled on soil samples, fertility, climatology, yields, herbicides and pesticides. Information will subsequently provide a data base on which to make crop recommendations to growers.

4) Pest Management - Provides information regarding insect population levels and advises growers on insecticide applications.

5) Variety Screening and Multiplication - This program screens varieties and advanced seedlings with respect to their potential in foreign and domestic markets.

ELIGIBILITY: N.B. potato growers

BUDGET: N/A

UTILIZATION: N/A

COMMENTS: This is not a comprehensive list of projects carried out under Potato Industry Evaluation and Education, but serves as a representative sample.

DRAFT

TITLE: Bon Accord Seed Potato Farm

DESCRIPTION: The Bon Accord Seed Potato Farm provides virus-free, high-quality, seed potatoes to the New Brunswick seed potato industry. Nineteen varieties are produced in three seed classes: Pre-Elite, Elite I and Elite II. The farm also serves a promotional function to the seed industry.

ELIGIBILITY: N/A

BUDGET: The annual operating budget is approximately $350,000 of which the N.B. government contributes approximately 75%; the remainder is funded through receipts from seed potato sales.

UTILIZATION: Pre-Elite and Elite I stocks, not required at Bon Accord, and all of the Elite II stock were graded and sold to 91 eligible seed growers in 1980-81.

DRAFT

PRODUCER ASSISTANCE: **NEW BRUNSWICK**

TECHNICAL SERVICE

TITLE:	Post Harvest Testing Program
DESCRIPTION:	This program provides a method of determining disease levels in New Brunswick seed potato lots. A field testing program is conducted in Florida in the fall and winter. The information is communicated to participating growers and is also used to form a data base of information on disease levels.
ELIGIBILITY:	N/A
BUDGET:	N/A
UTILIZATION:	N/A

DRAFT

PRODUCER ASSISTANCE:
COST-SHARE

PRINCE EDWARD ISLAND

TITLE: Seed Incentive Program

DESCRIPTION: As a means of encouraging producers whose crop has been infected with B R R to eradicate the disease on their farm, the Province assists in the cost of purchasing new seed. Under this program, eligible growers may receive $30 per acre providing proper clean-up and disinfection is effected and new seed of Foundation Class or better is purchased.

UTILIZATION: This program has been used by practically all eligible producers but as the incidence of B R R has decreased, the use of the program has dropped to the extent that in 1979/80 only 13 growers applied.

FUNDING: $40,000 was granted to producers in 1979-80.

PRODUCER ASSISTANCE: PRINCE EDWARD ISLAND
TECHNICAL SERVICE

TITLE: Cull Burial Program

DESCRIPTION: To aid in the control of potato disease and for general environmental considerations, the Province, as a free service to producers, will upon request provide bulldozers for burying cull potatoes from May 1 through July 15.

UTILIZATION: This service is utilized by approximately 150 growers.

FUNDING: The cost of this program is estimated at $150,000/year.

DRAFT

PRODUCER ASSISTANCE:
TECHNICAL SERVICE

PRINCE EDWARD ISLAND

TITLE:	Potato Disinfection Program
DESCRIPTION:	To aid in the control and eventual eradication of Bacterial Ring Rot the Province, as a free service, will steam clean and disinfect potato storages, handling equipment and machinery following clean-up at the close of each shipping season.
UTILIZATION:	Under this program around 500 warehouses/storages, 20,000 trucks, 5-6,000 refer cars and 10,000 pieces of other equipment are disinfected each year.
FUNDING:	The cost of this program is approximately $300,000/year.

DRAFT

PRODUCER ASSISTANCE: COST-SHARE

PRINCE EDWARD ISLAND

TITLE:	Agricultural Limestone Incentive Policy
DESCRIPTION:	As a means of increasing the productivity of agricultural land, producers encouraged to use soil acidity corrective limestone. Eligible producers may receive $11 per metric tonne to a maximum of 180 tonnes per year.
UTILIZATION:	In 1980-81, funding was advanced to 1818 producers. The program is primarily aimed at other crops but as those crops are frequently in the potato crop rotation plan, the program is considered to significantly benefit potato producers as well.
BUDGET:	$746,966 was advanced to producers in 1980-81.

DRAFT

PRODUCER ASSISTANCE:
TECHNICAL SERVICES, MGT. CONSULTING

PRINCE EDWARD ISLAND

TITLE: Extension/Marketing

DESCRIPTION: A general advice service is available in areas of land management, pest and disease control, engineering, soil testing, and climatology through five District offices. In addition, specific programs include:

Engineering Services - Producers have free access to farm building plans and advice for both new construction and renovation. Similar advice is available for land drainage, ditching, and machinery selection and management.

Soil Survey Services - Soil maps and interpretations are available to those contemplating purchasing or improving farmland.

Soil Testing Services - Soil testing is provided to producers free of charge to serve as a basis for fertilizer and limestone application.

Agroclimatology Services - Historical weather data is available to aid in crop planning. Late Blight incidence reports and conditions analyses are issued twice weekly together with spraying recommendations.

Weed, Pest and Crop Disease Control Services - Free consultation is available on disease and pest identification and control. An aphid monitoring program is conducted in cooperation with Agriculture Canada and seed potato topkilling recommendations are issued accordingly.

Crop Inspection - Non-seed acreage is inspected by provincial staff and disease eradication programs are administered as dictated by inspection results.

DRAFT

PRODUCER ASSISTANCE: **PRINCE EDWARD ISLAND**

LAND LEASE

TITLE: Land Development Corporation

DESCRIPTION: Producers wishing to acquire land by purchase or rental may look to the Corporation which temporarily acquires available land and holds it to facilitate producers in establishing or expanding farm operations.

BUDGET: Not available.

DRAFT

TITLE: P.E.I. Lending Authority

DESCRIPTION: The Lending Authority offers P.E.I. producers a complete credit package for working capital based on cost of production and the acquisition of land, buildings and equipment. Short-term loans are offered at prime rate and long-term loans are offered at the Authority's cost of borrowing.

BUDGET: Not available.

PRODUCER ASSISTANCE: PRINCE EDWARD ISLAND

TECHNICAL SERVICE

TITLE: Fox Island Seed Farm

DESCRIPTION: The Fox Island Seed Farm, an industry funded and operated enterprise, provides virus-free, high-quality seed potatoes to the P.E.I. seed potato industry.

BUDGET: Annual operating costs are covered by an industry tax. Canadian and provincial government funds of approximately $300,000 were contributed however to the construction of a laboratory facility.

DRAFT

MARKETING ASSISTANCE:
EXPORT PROMOTION

CANADIAN-FEDERAL

TITLE: General

DESCRIPTION: The Department of Industry, Trade and Commerce have a variety of programs available to potato exporters to assist in promotions. These programs are mainly directed toward trade missions either into Canada or to offshore markets. Generally, the Department provides professional marketing expertise to assist exporters of potatoes and provides some reimbursement of travel expenses for trade missions.

FUNDING: Not available.

DRAFT

MARKETING ASSISTANCE: CANADIAN-FEDERAL

PROMOTION

TITLE: Potatoes Canada

DESCRIPTION: An industry organization of P.E.I. and N.B. seed potato exporters. Coordinate all the offshore effort in assembling and supplying samples technical training courses, transportation services, assisting trade missions and any other related interests.

ELIGIBILITY: The 8 or 9 shippers of seed potatoes represent the total membership.

BUDGET: Annual budgets are set according to needs with financing through the shippers, provincial governments and the federal government. Budgets have approximated \$300-\$400,000 of which 30 to 50% is Federal.

UTILIZATION: By members only.

COMMENTS: This organization has developed new market and promoted seed potato sales in existing markets.

MARKETING ASSISTANCE: **CANADIAN FEDERAL**

COST-SHARE

TITLE: Maritime Freight Rate Act 1926
Atlantic Region Freight Assistance Act 1969

DESCRIPTION: Freight rate subsidies to offset the distance of haul to follow a Canadian route for products shipped from a select area (P.E.I., N.B., N.S., Nfld. and that part of Quebec east of Levis) to points outside the select area.

The subsidy was originally set at 20% to provide suitable compensation and applies only on that part of the route within the select directory.

M.F.R.A. applied specifically to rail and ARFAA provided equivalent assistance for trucks in 1957.

The level of subsidy was raised to 30% for Canadian destinations outside the select area in 1957.

BUDGET: Established by volume of traffic; funds through the Canadian Transport Commission.

UTILIZATION: Applies for all public carriers registered with the Canadian Transportation Commission and is paid to the carrier on the basis of manifests.

COMMENTS: The subsidy has been challenged by competitors in Quebec but has been maintained as an obligation undertaken by the Canadian government.

MARKETING ASSISTANCE: CANADIAN-FEDERAL

INSPECTIONS

TITLE: Inspection Services - Tablestock

DESCRIPTION: The Dairy, Fruit & Vegetable Division of the Food Production and Inspection Branch provides shipping point inspection on all shipments of table potatoes leaving P.E.I. and N.B. for domestic or export markets.

FUNDING: An inspection fee of $5/carlot is paid by the shipper. This represents about ½ of the total cost, the remainder of which is covered by the Canadian Federal government.

COMMENTS: This inspection is presently compulsory for producers in New Brunswick and Prince Edward Island. The Canadian Federal government is attempting to restructure the fees paid by shippers to reflect 100% of the cost.

DRAFT

MARKETING ASSISTANCE: INFORMATION

PRINCE EDWARD ISLAND

TITLE: Extension/Marketing

DESCRIPTION: Through the cooperation of federal and provincial offices, the industry is provided with a full range of statistics including acreage planted, average yields, prices, production, crop value, etc.

BUDGET: Not available.

DRAFT

PACKER/PROCESSOR ASSISTANCE: CANADIAN FEDERAL

DEVELOPMENT GRANTS

TITLE: Regional Economic Expansion Programs

DESCRIPTION: The Department of Regional Economic Expansion has programs available to assist areas of slower economic activity by paying direct capital contributions toward industry development based on the criteria of employment creation and feasibility of enterprise.

The Department also enters into General Development Agreements with the provinces to encourage industrial activity with strong emphasis on agricultural programs in the agrarian provinces.

GDA's are for minimum time periods of five years.

Types of programs funded include construction of facilities for potato processors and packers as well as educational and technical assistance to growers.

UTILIZATION: Each of the eastern provinces have taken advantage of both area assistance programs and General Development Agreements. Currently new agreements are being negotiated in P.E.I. and N.S.

BUDGET: Prince Edward Island has recently completed a $15 million project benefitting the potato industry; New Brunswick is currently implementing a similar $20 million project.

DRAFT

STATEMENT BY KENNETH STRATTON, DIRECTOR, MAINE BUREAU OF FORESTRY, DEPARTMENT OF CONSERVATION

STATE OF MAINE

Inter-Departmental Memorandum Date Nov. 13, 1981

To Lloyd C. Irland

Dept. State Planning Office

From Richard Morse Dick sgd

Dept. Conservation/Forestry

Subject Senator Cohen's Oversight Hearings On Trade Relations With Canada

By now you should have our suggestion for a paragraph for the Governor's letter.

I submit the following by way of further specific information for Senator Cohen's committee.

Jack Aley's report (copy enclosed)* is in my opinion the best discussion of the log export phenomenon available. It includes a detailed discussion, a summary, recommendations, and a tabular representation of the latest figures available on the export of logs. I suggest that it be submitted to the committee as is. Any summary I could make at this time would be redundant, and probably do less justice to the issue than he has done. His report does not discuss the bond/visa question, and there is no one in my office knowledgeable enough to discuss it in any depth. I suggest that the Department of Manpower Affairs might be of help here.

The exchange rate gives Canadian shingle producers and Christmas tree producers the same type of advantage that they enjoy in the lumber business albeit to a lessor degree because the value added is not as great. It is however enough to have an impact.

The Canadian cedar shingle grading system poses a larger threat to Maine shingle manufacturers than any other problem they face.

The Canadian shingle grades are lower than the ones used by the Maine mills and last year the Canadian grades were changed further to allow a 3" wide shingle in their bundles. (Maine's minimum is 3½").

The poor quality of the Canadian shingles (the knots in the first 6" of wood in the second clear grade are supposed to be sound and tight but if you examine a bundle of these shingles, you will find black knots, unsound knots and streaks of rot in the bottom 6" of what will become exposed wood when used) is having an adverse effect on the 2nd clear shingles manufactured by Maine mills. People won't buy Maine second clear shingles because they think they will get the same quality as the Canadian second clear.

One contractor estimates that he can save $600 doing a house using Maine made shingles rather than Canadian shingles.

In periods of slow or no business, this problem is especially hard as many Maine mills develop up to 80% second clear shingles. The upper grades move well because the high demand exceeds both the Canadian and Maine supplies.

---

* Report referred to too lengthy to be included in the record. Available for review in subcommittee files.

The issue of Gypsy Moth quarantine has an impact on the cost of producing Maine logs for shipment to Quebec market. While a relaxation of the permit requirements would be nice, I want to point out that the whole quarantine process vis a vis Canada is under review between Canada and APHIS, and I would not want our recommendations to mess up that process.

Presently certain products (notably wood) being shipped to Canada require either:

1. A state permit stating that the materials come from outside the quarantine area, or
2. A federal certificate stating that the load is free of Gypsy Moth life stages.

These precautions are somewhat incongruous with the practice of allowing free movement of outdoor camping articles and recreational vehicles from the generally infested area throughout Canada.

Since Canada now has Gypsy Moth infestations in Quebec and New Brunswick, it appears that the thrust of activity should change from quarantine of certain materials into Canada to retardation of spread within Canada.

Specifically, a cooperative agreement with certain mills within Canada, similar to that employed in Maine for mills outside the infested area, could allow unrestricted shipping to these points. Sanitation practices in the immediate mill site and careful disposal of bark, slabs and edgings would destroy any Gypsy Moth life stages present.

I hope this is helpful to you.

/sgd
cc: K. Stratton
C. Granger

IMPORT QUOTA ON IMPORTED WOOD AND PLASTIC CLOTHESPINS

ECONOMIC CONSIDERATIONS FOR THE STATE OF MAINE

Lloyd C. Irland
State Economist
State Planning Office
State House Station 38
Augusta, ME 04333
(207) 289-3261

September 30, 1981

Introduction and Recommendation

Clothespins are produced in Maine at three locations:

Forster Mfg.	Mattawamkeag
Diamond International	Peru
Penley Corp.	West Paris

The industry employs more than 400 persons, producing nearly five million gross per year.[1]

This report summarizes key facts, from the State of Maine's perspective, on the question of continuing the existing import quotas on wood and plastic clothespins.

Based on the findings in this report, I recommend that the State support the industry's request for a three-year quota extension. After that point, no extensions under the law are possible. The industry could reapply for protection after another two years.

---

[1] All employment and output data referring to Maine in this report include a small volume of business at one Vermont plant.

Legal Authority and Procedures

The International Trade Commission is conducting this investigation under Section 203 of the Trade Act of 1974. This is the provision for extending quotas applied originally under Sec. 201 of the same act.

To recommend an extension under Section 203, the Commission must find that relaxing or eliminating the quotas would result in substantial injury to the industry, and that the injury to consumers would be minimal.

Dumping is not an issue in this proceeding.

After reviewing data submitted at the hearing, the ITC will make a recommendation to the President, who will presumably act before the current quota expires in February. The President is advised on these matters by Mr. Brock, the Special Trade Representative. The current deadline for reporting to the President is December 7, 1981.

The Current Quota

In 1978, the U.S. International Trade Commission conducted two investigations of clothespin imports and their effect on the domestic industry.

At that time, imports had risen significantly, and U.S. output was falling. Capacity utilization and profits of U.S. manufacturers were very poor. In 1977, imported clothespins held 46% of the U.S. market.

After examining a large record of data, the Commission found that the U.S. clothespin industry had suffered substantial injury:

> "clothespins....are being imported in such increased quantities as to be a substantial cause of serious injury to the domestic industry...(p.3).

The Commission recommended a five-year quota that would set separate limits by price classes of wood and plastic spring clothespins. The President, early in 1979, adopted a three-year quota, and retained a tariff rate that had previously been in effect.

The quota is for wood and plastic clothespins together, as follows:

Valued at Less than	Quarterly Limit, Thousand gross
$0.80 per gross	125
9.80 to 1.35	150
1.35 to 1.70	225
1.70 or more	none

The intent of the quota is to limit annual imports to two million gross in the price levels below $1.70 per gross. (Table 1).

Since the quota was established, the People's Republic of China has virtually ceased supplying the U.S. market. Major suppliers continue to be Poland, Taiwan, and the Federal Republic of Germany.

TABLE I - IMPORTS FOR CONSUMPTION OF CLOTHESPINS, 1980

Price per gross	Plastic	Wood - Springtype
	............thousand gross	....
$ 0.80 less	60	478
$ 0.80 to 1.35	58.2	554.8
$ 1.35 to 1.70	72.8	420.6
over $1.70	151.1	31.1
TOTAL	342.1	1,484.5

Source: U.S. Department of Commerce, Foreign Trade Division, U.S. Imports for Consumption CY1980. These are Tariff Code Series 790.05. Miscellaneous types of clothespins not listed in this table totalled 229,000 gross.

Prior to 1978, breakdowns by price and plastic and wood were not given.

Beneficial Impacts of Quota

During the quota period, a number of significant benefits accrued to the Maine industry and local Maine communities:

-- Maine clothespin production has risen, from 4.4 million to an annual rate in the first half of 1981 that would exceed five million for the year.

-- Imports have declined notably from 3.5 million in 1977 to 2.1 million gross by 1980, a cut of 40%.

-- As a result, company rates of capacity utilization have risen.

-- Employment has risen somewhat, to more than 400 jobs in Maine in the first half of 1981. The quality of employment has risen, since the producers have been able to switch from month-to-month on-and-off employment to steady year-round employment and working more shifts per day. This substantial improvement is of critical importance and is not adequately measured by the raw statistics on the number of persons employed.

-- During the quota period, wages paid rose from $2.8 million in 1978 to $3.6 million in 1980. In the first half of 1981, they are 23% ahead (at 2.1 million) of the same period in 1980.

-- The quota has enabled the industry to undertake modernizations that will improve its competitive position in the long run.

The clothespin industry, employing about 500 people in northern New England, is much more important to local communities than this figure indicates. The extreme case may be Mattawamkeag, Maine. In this rural community, the clothespin activities of Forster Manufacturing are responsible for more than half of the total manufacturing employment in the town. Though Mattawamkeag is near the manufacturing town of Lincoln, the importance of jobs in clothespins is clear.

In these uncertain times, the State is opposed to any Federal policy changes that would reverse the progress that has benefitted this industry, its employees, and dependent communities.

For several years it as been State policy to encourage secondary wood processing as a means of promoting more employment based on Maine's greatest renewable resource. We think that an extension of existing quota protection will help make this policy a success for clothespins.

The clothespin industry consumes a relatively small volume of wood, but pays good prices. The aggregate payments to stumpage owners for maple and beech-used in clothespins are on the order of $400,000 per year. Though a small portion of the State's annual stumpage harvest, this represents a valuable log market in the local areas affected.

Impacts of the Quota on the Consumer

Under the quota, total imports of clothespins have fallen. Clearly, prices to the consumer are higher than they would have been without the quota. If the quota is extended, this will continue to be the case.

At the end of September, clothespins (sold at retail in packages of 18 each) would cost the consumer $6.00 per gross at an Augusta-area store. Considering that the quota continues to admit two million clothespins, and that the import prices are from one to two dollars per gross, it does not appear that consumer prices are materially affected by the quota.

If FOB prices are elevated by as much as 20% by the quota, this translates into about a 36 cent increase per gross in consumer prices. At a consumption rate of $6 million gross, this results in a national loss to consumers of just over $2 million. The actual amount is probably less. For the individual consumer, who rarely buys a gross at a time, the price difference on a given purchase would be unnoticeable.

Clothespins prices charged by domestic manufacturers have risen about 30% since 1978 (industry brief). This is less than the increase in the CPI component for all consumer non-durables. Since the industry was previously marginal or losing money, price increases were essential for its survival. Because of the intricate dynamics of this market, in which imports were limited, it is impossible to conclude that this 30% increase is due solely to the quota. There is no way to know what the path of prices would have been in the absence of the quota.

In fact, the average prices in the cheapest price bracket (below 80¢), have actually fallen during the quota period (industry brief).

Industry Response to Removal of Quotas

The quotas are currently filled at the onset of each quota period. This suggests that a sizeable flood of clothespins would enter the market on removal of the quota. The market for U.S. producers would decline, and prices would weaken.

The producers would face serious erosion of sales, cash flow, and operating rates before they could fully capitalize on the benefits of the first three-year quota.

Work hours and wages earned by employees would be cut, resulting in further economic losses to three Maine communities. These areas would return to the uncertain, on-again, off-again employment pattern of earlier years.

It is impossible to rigorously estimate the loss of jobs, output, and wages that would ensue. If the firms and nations shipping to this country pursued an aggressive policy, they could significantly exceed their 1977 market share of 46%. Whether any U.S. production could survive at this time of high interest rates and inflation could not be predicted.

At the least, the removal of quotas would result in the waste of the benefits of the past three year's quota, and would render it virtually impossible to finance the improvements needed to make the industry able to withstand import competition after 1982.

According to the industry's brief to the ITC, they are prepared to make additional investments in excess of $2 million from 1982-84 in their effort to become more competitive. If the quota is removed, there is little prospect that this additional investment could be financed.

Information Sources

U.S. International Trade Commission,

Clothespins -- report to the President on Investigation No. TA-201-36, Sec. 201 of the Trade Act of 1974.

U.S. ITC Publ. 933, Dec. 1978.

U.S. Department of Commerce, Foreign Trade Division
Washington, D.C.

A. J. Haug, Forster Mfg. Co., Wilton, Maine

John Fox, U.S. Customs Service, Portland, Maine

W. Schechter, J. MacHatton, U.S. ITC

M. Solter, Prehearing brief on behalf of clothespin manufacturers, September 28, 1981.

SUMMARY OF STATUTORY PROVISIONS RELATED TO IMPORT RELIEF

USITC PUBLICATION 1057

APRIL 1980

United States International Trade Commission / Washington, D.C. 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Catherine Bedell, Chairman
Bill Alberger, Vice Chairman
George M. Moore
Paula Stern
Michael J. Calhoun

Kenneth R. Mason, Secretary to the Commission

Compiled by

Office of Industries
Norris A. Lynch, Director

Address all communications to
Office of the Secretary
United States International Trade Commission
Washington, D.C. 20436

CONTENTS

Page

Foreword-- iii
Countervailing duty investigations---------------------------- 1
  Title VII subtitle A ("Imposition of Countervailing Duties")-- 1
    Procedures--- 1
    Suspension of investigations------------------------------ 2
  Section 303 ("Countervailing Duties")----------------------- 3
  Additional information-------------------------------------- 3
Antidumping investigations------------------------------------ 4
  Procedures-- 4
  Suspension of investigations-------------------------------- 5
  Additional information-------------------------------------- 5
General investigations of trade and tariff matters------------ 6
Investigations of costs of production------------------------- 7
Investigations of alleged unfair practices in import trade----- 8
Investigations of injury from increased imports:
  Industries-- 10
  Workers--- 11
  Firms--- 12
  Communities--- 12
Investigations regarding enforcement of U.S. rights under trade agreements and response to certain foreign trade practices--- 14
Investigations of market disruption by imports from Communist countries-- 15
Investigations under the Agricultural Adjustment Act---------- 16

Foreword

This brief summary of the various U.S. statutory provisions related to import relief has been prepared to provide the public with a concise reference source on the availability and types of import relief, the characteristics of the various types of import-related investigations, and the points of contact for instituting investigations or obtaining further information.

It should be noted that the material contained herein is intended only as an introductory guide and in all instances where the exact provisions of law are required, the referenced statutes should be consulted directly.

Copies of the U.S. International Trade Commission's Rules of Practice and Procedure, which set forth the procedures for the filing and conduct of Commission investigations, are available from the Secretary, U.S. International Trade Commission, 701 E Street NW., Washington, D.C. 20436 (phone 202/523-0161).

Countervailing Duty Investigations

There are currently two separate provisions of law relating to countervailing duties--(1) subtitle A of title VII of the Tariff Act of 1930, as added by the Trade Agreements Act of 1979 (19 U.S.C. 1671), and (2) section 303 of the Tariff Act of 1930 (19 U.S.C. 1303), as amended by the Trade Agreements Act of 1979. The provisions of subtitle A of title VII apply to imports from countries which have assumed the obligations (or substantially equivalent obligations) of the Multilateral Trade Negotiations agreement on subsidies and countervailing measures. 1/ Section 303 provisions apply to imports from all other countries.

Title VII, subtitle A ("Imposition of Countervailing Duties")

Under title VII, countervailing duties are imposed when the Department of Commerce determines that a country under the agreement on subsidies and countervailing measures or person or organization of that country is providing a subsidy with respect to a class or kind of merchandise imported into the United States, and the U.S. International Trade Commission determines that an industry in the United States is materially injured or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of imports of that merchandise. 2/ Material injury is defined to be harm which is not inconsequential, immaterial, or unimportant.

Procedures.--Countervailing duty investigations can be initiated by the Department of Commerce or by petition. Within 20 days after a petition is filed, Commerce determines whether the petition alleges the elements necessary for relief (material injury to a domestic industry by reason of subsidized imports) and includes information reasonably available to the petitioner supporting the allegations. If the determination is affirmative, Commerce begins an investigation to determine whether subsidization exists. If the determination is negative, the proceedings end.

Within 45 days after a petition is filed or an investigation is initiated by Commerce, the Commission determines whether there is a reasonable indication that injury to a domestic industry exists by reason of subsidized imports. If the determination is negative, the proceedings end.

1/ The term "agreement on subsidies and countervailing measures" means the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade (relating to subsidies and countervailing measures), approved under sec. 2(a) of the Trade Agreements Act of 1979.

2/ "Countries under the agreement" include (1) countries which have signed the agreement; (2) those which have assumed the obligations of the agreement, but cannot sign because they have no diplomatic relations with the United States; and (3) those with which the United States has an unconditional most-favored-nation-agreement obligation that runs specifically to countervailing duties.

If the Commission's determination is affirmative, within 85 days after a petition is filed or an investigation is initiated, Commerce makes a preliminary determination, based on the best evidence available at the time, of whether there is a reasonable basis to believe or suspect that a subsidy exists. In extraordinarily complicated cases, this determination is made within 150 days.

If the preliminary determination is affirmative, Commerce (a) requires bonds or cash deposits to be posted for allegedly subsidized imports in an amount equal to the estimated net subsidy, and (b) continues its investigation. The Commission initiates an investigation to determine whether injury exists. If Commerce's preliminary determination is negative, the investigation simply continues.

Within 75 days after its preliminary determination, Commerce makes a final determination of whether a subsidy exists. If this determination is negative, the proceedings end.

If Commerce's final determination is affirmative (following an affirmative preliminary determination), the Commission makes a final determination of whether a domestic industry is being materially injured by reason of subsidized imports before the later of (1) the 120th day after Commerce makes its affirmative preliminary determination, or (2) the 45th day after Commerce makes its affirmative final determination. In a case where Commerce's preliminary determination is negative, the Commission's final determination on material injury is made within 75 days after Commerce's affirmative final determination on subsidy.

If the final determination of the Commission is affirmative, a countervailing duty order requiring imposition of countervailing duties is issued within 7 days of notification of the Commission's determination.

Suspension of investigations.--An investigation can be suspended prior to a final determination by Commerce on the issue of subsidization if (1) the government of the subsidizing country, or exporters accounting for substantially all of the imports of the merchandise under investigation, agree to eliminate the subsidy, to completely offset the net subsidy, or to cease exports of the merchandise to the United States, within 6 months after suspension of the investigation; or (2) extraordinary circumstances are present and the government or exporters described above agree to take action which will completely eliminate the injurious effect of the imports of the merchandise under investigation. However, if within 20 days of the date of publication of the notice of suspension, any party or a country involved in the countervailing duty investigation requests continuation, the suspended countervailing duty investigation must be continued.

The Commission, upon receipt of a review petition, shall determine whether the injurious effect of imports is eliminated completely by the agreement. If the Commission determines that the injurious effect is not eliminated, then the investigation must be resumed. If Commerce determines that an agreement which resulted in suspension of an investigation is being violated, then the investigation is resumed or a countervailing duty order is issued. A countervailing duty order would be issued if an interested party had previously requested continuation of the suspended investigation, and the Commission and Commerce subsequently made affirmative final determinations.

Section 303 ("Countervailing Duties")

Section 303 of the Tariff Act of 1930 concerns the imposition of countervailing duties on imported merchandise manufactured in countries which are not under the General Agreement on Tariffs and Trade (GATT) agreement on subsidies and countervailing measures. If the Secretary of Commerce determines that a bounty or grant is being bestowed in such countries, a countervailing duty can be levied on dutiable articles without a Commission investigation and determination of material injury. In the case of an article which is free of duty, countervailing duties may be imposed under section 303 only if there is an affirmative determination by the Commission under the procedures, standards, and injury tests now applicable under title VII as described above. 1/

Additional information

Parts 201 and 207 of the Commission's Rules of Practice and Procedure (19 CFR Parts 201 and 207) set forth procedures for the conduct of Commission investigations concerning countervailing duties.

For further information contact: 1) Office of Policy
Office of the Assistant Secretary
for Trade Administration
U.S. Department of Commerce
Washington, D.C. 20230
Phone: 202/566-2323

2) Secretary
U.S. International Trade Commission
701 E Street NW.
Washington, D.C. 20436
Phone: 202/523-0161

1/ Commission investigations on duty-free articles under sec. 303 are conducted only if required by international obligations of the United States, e.g., if the country concerned is a signatory of the GATT.

Antidumping Investigations

Subtitle B of title VII of the Tariff Act of 1930, as added by the Trade Agreements Act of 1979 (19 U.S.C. 1673), provides that antidumping duties will be imposed when the Department of Commerce determines that a class or kind of foreign merchandise is being, or is likely to be, sold in the United States at less than fair value and the U.S. International Trade Commission determines that an industry in the United States is materially injured or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of imports of that merchandise.

Procedures

Antidumping investigations can be initiated by Commerce or by petition. Within 20 days after a petition is filed, Commerce determines whether the petition alleges the elements necessary for relief (material injury to a domestic industry by reason of dumped imports) and includes information reasonably available to the petitioner supporting the allegation. If the determination is affirmative, Commerce initiates an investigation to determine whether dumping exists. If the determination is negative, the proceedings end.

Within 45 days after a petition is filed or an investigation is initiated by Commerce, the Commission determines whether there is a reasonable indication that injury to a domestic industry exists by reason of dumped imports. If the determination is negative, the proceedings end.

If the Commission's determination is affirmative, within 160 days after a petition is filed or an investigation is initiated, Commerce makes a preliminary determination, based on the best evidence available at the time, of whether there is a reasonable basis to believe or suspect that dumping exists. In extraordinarily complicated cases, this determination is made within 210 days.

If the preliminary determination is affirmative, Commerce (a) requires bonds or cash deposits to be posted for allegedly dumped imports in an amount equal to the estimated margin of dumping, and (b) continues its investigation. The Commission initiates an investigation to determine whether injury exists. If Commerce's preliminary determination is negative, the investigation simply continues.

Within 75 days (or 135 days upon request of exporters when the preliminary determination was affirmative or petitioners when the preliminary determination was negative) after its preliminary determination, Commerce makes a final determination of whether dumping exists. If this determination is negative, the proceedings end.

If Commerce's final determination is affirmative (following an affirmative preliminary determination), the Commission makes a final determination of whether a domestic industry is being materially injured by reason of dumped imports before the later of (1) the 120th day after Commerce makes its affirmative preliminary determination, or (2) the 45th day after Commerce makes its affirmative final determination. In a case where Commerce's preliminary determination is negative, the Commission's final determination on material injury is made within 75 days after Commerce's final affirmative determination on dumping.

If the final determination of the Commission is affirmative, an antidumping duty order requiring imposition of antidumping duties is issued within 7 days of notification of the Commission's determination.

Suspension of investigations

An investigation can be suspended prior to a final determination by Commerce on the issue of dumping if (1) exporters accounting for substantially all of the imports of the merchandise under investigation agree to eliminate the dumping, or to cease exports of the merchandise to the United States within 6 months after suspension of the investigation; or (2) extraordinary circumstances are present and the exporters described above agree to revise prices so as to completely eliminate the injurious effect of the imports of the merchandise under investigation. However, if within 20 days of the date of publication of the notice of suspension, the exporters described above or any party involved in the investigation requests continuation. the suspended investigation must be continued.

The Commission, upon receipt of a review petition, shall determine whether the injurious effect of imports is eliminated completely by the agreement. If the Commission determines that the injurious effect is not eliminated, then the investigation must be resumed. If Commerce determines that an agreement which resulted in suspension of an investigation is being violated, then the investigation is resumed and an antidumping duty order is issued. An antidumping duty order would be issued if an interested party had previously requested continuation of the suspended investigation, and the Commission and Commerce subsequently made affirmative final determinations.

Additional information

Parts 201 and 207 of the Commission's Rules of Practice and Procedure (19 CFR Parts 201 and 207) set forth procedures for the conduct of Commission antidumping investigations.

For further information contact: 1) Office of Policy
Office of the Assistant Secretary
for Trade Administration
U.S. Department of Commerce
Washington, D.C. 20230
Phone: 202/566-2323

2) Secretary
U.S. International Trade Commission
701 E Street NW.
Washington, D.C. 20436
Phone: 202/523-0161

General Investigations of Trade and Tariff Matters

The Commission conducts investigations under section 332 of the Tariff Act of 1930 (19 U.S.C. 1332) for the purpose of providing trade information to the President, the Committee on Ways and Means of the House of Representatives, and the Committee on Finance of the Senate. Investigations and reports under section 332 may be requested by the President, either of the said committees, or by either branch of the Congress. The Commission may also conduct such investigations on its own initiative. Generally, written submissions and participation in hearings by the public in the course of such investigations is sought. General rules concerning the submission of documents and participation in hearings are set forth in part 201 of the Commission's Rules of Practice and Procedure (19 CFR Part 201). There is no established procedure, as there is under other Commission investigative authorities, for the initiation of such investigations by public petition or other request.

Section 332 sets forth the Commission's basic authority to investigate--

The administration and fiscal and industrial effects of the customs laws of this country;
The relationship between the rates of duty on raw materials and finished or partly finished products;
The effects of ad valorem and specific duties and of compound (specific and ad valorem) duties;
All questions relative to the arrangement of schedules and classification of articles in the several schedules of the customs law;
The operation of the customs laws, including their relation to the Federal revenues and their effect upon the industries and labor of the country;
The tariff relations between the United States and foreign countries, commercial treaties, preferential provisions, and economic alliances;
The effect of export bounties and preferential transportation rates;
The volume of importations compared with domestic production and consumption; and
Conditions, causes, and effects relating to competition of foreign industries with those of the United States.

This broad authority has served as the basis of numerous reports concerning international trade matters.

For further information contact: Secretary
U.S. International Trade Commission
701 E Street NW.
Washington, D.C. 20436
Phone: 202/523-0161

Investigations of Costs of Production

Section 336(a) of the Tariff Act of 1930 provides in part that (1) upon request of the President, or (2) upon resolution of either or both Houses of Congress, or (3) upon its own motion, or (4) upon appropriate application of any interested party, the U.S. International Trade Commission shall investigate the differences in the costs of production of any domestic article and of any like or similar foreign article (19 U.S.C. 1336). 1/

Applications for an investigation may be filed by any firm, association of firms, or corporation engaged in the production of a domestic article, or by any duly authorized representative of the foregoing. Upon the receipt of an application properly filed, the Commission will make a preliminary inquiry for the purpose of determining whether there is good and sufficient reason for a full investigation. If such determination is in the affirmative, a full investigation is instituted. A public hearing is held in connection with each full investigation.

The Commission reports to the President the results of the investigation and its findings with respect to differences in the costs of production of the domestic articles and the like or similar foreign articles when produced in the principal competing country. The Commission specifies in its report the increase or decrease in the statutory rate of duty necessary to equalize the differences in costs of production (not to exceed 50 percent of the statutory rate).

The President may approve the rates of duty and changes in classification specified by the Commission, if in his judgment they are necessary to equalize differences in costs of production.

The Commission has conducted no investigations under section 336(a) of the Tariff Act of 1930 since 1962.

Parts 201 and 202 of the Commission's Rules of Practice and Procedure (19 CFR Parts 201 and 202) set forth procedures for the conduct of investigations under section 336(a).

For further information contact:

Secretary
U.S. International Trade Commission
701 E Street NW.
Washington, D.C. 20436
Phone: 202/523-0161

1/ The provisions of sec. 336 of the Tariff Act may not be applied to any article with respect to the importation of which into the United States a foreign trade agreement has been concluded under the Trade Agreements Act of 1934, the Trade Expansion Act of 1962, or the Trade Act of 1974.

Investigations of Alleged Unfair Practices in Import Trade

Section 337 of the Tariff Act of 1930 (19 U.S.C. 1337) declares unlawful unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is (1) to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or (2) to prevent the establishment of such an industry, or (3) to restrain or monopolize trade and commerce in the United States. The U.S. International Trade Commission is authorized to investigate allegations of such unfair practices and to make determinations as to the existence of such practices in violation of section 337.

Whenever, in the course of an investigation under section 337, the Commission has reason to believe that the matter before it is based solely on alleged acts and effects which are within the purview of the antidumping or countervailing duty provisions of law, then it must terminate or not institute as appropriate, its investigation under section 337. If the investigation before the Commission is based in part on these provisions, and in part on other alleged facts, then it may institute or continue an investigation.

If a violation of section 337 is found, the Commission is required to direct that the foreign articles be excluded from entry into the United States, unless after considering the effect of certain public-interest factors it finds that they should not be excluded. In appropriate circumstances, the Commission may issue interim temporary orders if it determines that there is reason to believe that there is a violation of section 337. In the event of a temporary exclusion order, entry is to be permitted under bond. In lieu of issuing an exclusion or temporary exclusion order, the Commission may issue an appropriate cease and desist order to be served on the violating party or parties, unless after considering the effect of certain public-interest factors it finds that such orders should not be issued.

Any party found to have violated a Commission order could be subject to a civil penalty of up to the greater of $10,000 per day or the domestic value of the articles entered or sold on such day in violation of the order.

Following determination of a violation of section 337 by the Commission, the President may, within 60 days after receiving notification of such determination, disapprove the Commission's determination, and the action in connection therewith has no force or effect. Parties adversely affected by a final Commission determination may appeal the determination to the U.S. Court of Customs and Patent Appeals.

All Commission investigations under section 337 are conducted on the record after publication of notice and with opportunity for a hearing in conformity with the provisions of the Administrative Procedure Act (5 U.S.C. 551 et seq.). The Commission is required to conclude any such investigation and make its determination at the earliest practicable time, but not later than 1 year (18 months in more complicated cases) after the date of publication in the Federal Register of notice of such investigation. In the course of each such investigation, the Commission is required to consult with and seek advice and information from the Department of Health, Education, and Welfare; the Department of Justice; the Federal Trade Commission; and other appropriate departments and agencies.

The majority of the section 337 complaints filed with the Commission have alleged importation of an article made in accord with the claims of a valid, unexpired U.S. patent as the unfair practice. Holders of U.S. process patents should note the protections afforded by section 337a of the Tariff Act (19 U.S.C. 1337a--not to be confused with sec. 337(a))--concerning process patents.

Parts 201 and 210 of the Commission's Rules of Practice and Procedure (19 CFR Parts 201 and 210) set forth procedures for the conduct of Commission investigations under section 337.

For further information contact:
Secretary
U.S. International Trade Commission
701 E Street NW.
Washington, D.C. 20436
Phone: 202/523-0161

Investigations of Injury From Increased Imports

Industries

Under section 201(b) of the Trade Act of 1974 (19 U.S.C. 2251(b)), the Commission conducts investigations to determine whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article. If the Commission makes an affirmative determination under section 201(b), it is required to (a) find the amount of the increase in, or imposition of, any duty or other import restriction which is necessary to prevent or remedy the injury, or (b) if it finds that adjustment assistance can effectively remedy the injury, recommend the provision of such assistance. A public hearing is required to be held in the course of all such investigations.

The Commission is required to conduct such investigations upon receiving a petition from an entity, including a trade association, firm, certified or recognized union, or group of workers, which is representative of an industry; at the request of the President or the United States Trade Representative; upon resolution of the Committee on Ways and Means of the House of Representatives or the Committee on Finance of the Senate; or upon its own motion. The Commission must report to the President the results of its investigation, including any findings and recommendations concerning relief, not later than 6 months after receiving the petition, request, or resolution or instituting the investigation on its own motion.

If the Commission makes an affirmative injury determination and recommends the provision of import relief (as opposed to adjustment assistance), the President must decide within 60 calendar days what, if any, relief is to be provided and so advise the Congress. The Commission may recommend only such relief as the President has authority to proclaim under section 203 of the Trade Act (i.e., higher tariffs, a tariff-rate quota system, quantitative restrictions, or some combination thereof 1/). In determining what relief, if any, to provide, the President is required to take into account various factors, including the national economic interest. If the President takes action which is different from that recommended by the Commission, or if the President declines to take any action, Congress may, within 90 legislative days, pass a concurrent resolution, approved by a majority of those present and voting in each House, directing the President to proclaim the relief recommended by the Commission. Where the Commission recommends the provision of adjustment assistance as the form of relief, the President is to direct the Secretaries of Labor and Commerce to give expeditious consideration to petitions for such relief.

1/ The President may also negotiate orderly marketing agreements with the countries supplying the imports.

Relief is temporary and may be provided for up to 5 years, with the possibility of one extension of not more than 3 years. Tariffs may be increased to a level no more than 50 percent ad valorem above the presently existing rate (i.e., if the present rate is 10 percent, it may be increased to no more than 60 percent), and any quantitative restraint (quota) proclaimed by the President must permit the importation of a quantity or value of an article which is not less than that entered during the most recent period representative of imports of that article.

The Commission's rules concerning the filing of section 201 petitions and the conduct of investigations thereunder are set forth in part 201 and part 206, subparts A and B, of its Rules of Practice and Procedure (19 CFR Part 201 and Part 206 Subparts A and B).

Under section 203(i) of the Trade Act (19 U.S.C. 2253(i)), the Commission reports with respect to developments within an industry that has been granted import relief and advises the President of the probable economic effect of the extension, reduction, or termination of relief that has been granted. The President may continue, modify, or terminate the import relief previously granted.

Commission procedures regarding the conduct of investigations under section 203 are set forth in part 201 and part 206, subparts A and D, of the Commission's Rules of Practice and Procedure (19 CFR Part 201 and Part 206 Subparts A and D).

For further information contact: Secretary
U.S. International Trade Commission
701 E Street NW.
Washington, D.C. 20436
Phone: 202/523-0161

Workers

A group of workers or their certified or recognized union or other duly authorized representative may file a petition for adjustment assistance with the Secretary of Labor under section 221 of the Trade Act (19 U.S.C. 2271). Upon receipt of the petition, the Secretary publishes a notice in the Federal Register that a petition has been received and an investigation initiated.

Under the worker adjustment assistance provisions, workers in a firm qualify for trade adjustment benefits if the Secretary of Labor, within 60 days after the filing of a petition, finds that an absolute or relative increase in imports contributed importantly to the workers' unemployment and to a decrease in sales or production of the firm from which they have become separated.

The Trade Act provides for direct trade readjustment allowances to workers certified as eligible for adjustment assistance as well as for measures aimed at helping adversely affected workers find new employment, including job search, training, and relocation allowances. This program expires on September 30, 1982.

For further information contact:
Office of Trade Adjustment Assistance
U.S. Department of Labor
Washington, D.C. 20210
Phone: 202/523-6225

Firms

Firms may file petitions for adjustment assistance with the Secretary of Commerce under section 251 of the Trade Act (19 U.S.C. 2341). Upon receipt of the petition, the Secretary publishes a notice in the Federal Register that a petition has been received and an investigation initiated. Firms which are found eligible for assistance are entitled to technical assistance and/or financial assistance in the form of loans and loan guarantees. The Secretary is required to reach a decision on a firm's adjustment assistance proposal no later than 60 days after receiving the firm's application.

The Secretary shall certify a firm as eligible to apply for adjustment assistance if it is determined that increases in imports have contributed importantly to the separation or threat of separation of a significant number of workers in the firm and that sales or production, or both, of such firm have decreased absolutely.

The program of adjustment assistance for firms expires on September 30, 1982.

For further information contact:
Trade Act Certification Division
U.S. Department of Commerce
Washington, D.C. 20230
Phone: 202/377-3211

Communities

Communities may file petitions for adjustment assistance with the Secretary of Commerce under section 271 of the Trade Act (19 U.S.C. 2371). Upon receipt of the petition, the Secretary publishes a notice in the Federal Register that a petition has been received and an investigation initiated.

The program of community adjustment assistance is intended to help restore the economic viability of areas adversely affected by increased imports. Communities will be certified as eligible to apply for adjustment assistance if the Secretary determines that a significant number or proportion of the workers employed within the "trade impacted area" defined by the Secretary of Commerce have been or are threatened to become totally or partially separated, that sales or production of a firm or firms within the area have decreased absolutely, and that increased imports or the transfer of productive facilities to a foreign nation have contributed importantly to the unemployment or decline in sales or production. Eligible communities could receive a variety of developmental assistance including technical assistance and direct grants for the acquisition and development of land and improvements of public works and public services.

The Trade Act also contains several provisions designed to attract new investment to areas affected by trade. The Secretary of Commerce is authorized to make loans and loan guarantees to qualified applicants to acquire, construct, or modernize plant facilities or for such other purposes as the Secretary determines are likely to attract new investment and to create new, long-term employment opportunities within the area.

For further information contact: Trade Act Certification Division
U.S. Department of Commerce
Washington, D.C. 20230
Phone: 202/377-3211

Investigations Regarding Enforcement of U.S. Rights Under Trade Agreements and Response to Certain Foreign Trade Practices

Chapter 1 of title III of the Trade Act of 1974 (19 U.S.C. 2411), as revised by title IX of the Trade Agreements Act of 1979, concerns the (1) enforcement of U.S. rights under trade agreements and (2) U.S. response to foreign violations of international trade rules or foreign trade practices which restrict or discriminate against U.S. commerce.

Under this provision the President, upon determining a foreign violation, shall take action as appropriate to enforce such U.S. rights or eliminate unfair foreign practices. Action under this provision may be applied to all countries or solely against the products or services of the foreign country involved. The President is permitted to suspend or withdraw trade-agreement concessions for the country involved or impose duties and other restrictions on imports of, and fees and restrictions on the services of, the country involved.

The President may take action on his own motion, or any interested person may file a petition with the United States Trade Representative (USTR) requesting the President to take action under section 301 and setting forth the allegations in support of the request. The USTR reviews the allegations in the petition and, not later than 45 days after the date on which he received the petition, determines whether to initiate an investigation. Title IX sets out various investigative and consultative requirements for the USTR prior to his making a recommendation to the President on what action, if any, the President should take with respect to the issues raised in the petition. The time allowed for a USTR recommendation varies with the nature of the alleged foreign violation. Before making a recommendation to the President, the USTR may request the views of the International Trade Commission regarding the probable impact on the U.S. economy of the taking of any action.

Not later than 21 days after the date on which he receives the recommendation of the USTR under section 304 with respect to a petition, the President determines what action, if any, he will take under this section, and publishes notice of his determination, including the reasons therefor, in the Federal Register.

Parts 201 and 205 of the Commission's Rules of Practice and Procedure (19 CFR Parts 201 and 205) set forth procedures for the conduct of Commission investigations regarding the enforcement of U.S. rights under trade agreements and response to certain foreign trade practices.

For further information contact: Chairman, Section 301 Committee
Office of the United States Trade Representative
1800 G Street NW.
Washington, D.C. 20506
Phone: 202/395-3432

Investigations of Market Disruption by Imports From Communist Countries

Under section 406(a) of the Trade Act of 1974 (19 U.S.C. 2436(a)) the Commission conducts investigations to determine whether imports of an article produced in a Communist country are causing market disruption with respect to a domestically produced article. Section 406(e) states that market disruption exists within a domestic industry whenever imports of an article, like or directly competitive with an article produced by such domestic industry, are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury, or threat thereof, to such domestic industry. The term "Communist country" means any country dominated or controlled by communism.

The Commission conducts such investigations at the request of the President or the United States Trade Representative, upon resolution of either the Committee on Ways and Means of the House of Representatives or the Committee on Finance of the Senate, on its own motion, or upon the filing of a petition by an entity, including a trade association, firm, certified or recognized union, or group of workers, which is representative of an industry. Most section 406 investigations are conducted on the basis of petitions filed by an entity representative of an industry. The Commission must complete its investigation within 3 months of the filing of a petition, receipt of a request or resolution, or institution of an investigation on its own motion. The Commission must hold a public hearing in the course of the investigation.

If the Commission finds that market disruption exists it must also recommend to the President relief that will remedy such market disruption. Such relief could involve an increase in, or imposition of, rates of duty or quantitative restrictions. The President has 60 days after receiving a Commission determination and relief recommendation to advise Congress as to what, if any, relief he will proclaim (except that the President has an additional 90 days to negotiate an orderly marketing agreement if he desires to provide relief in that form). Any relief proclaimed would be in accordance with the procedures and limitations set forth in sections 202 and 203 of the Trade Act of 1974 (19 U.S.C. 2252 and 2253). Relief would involve imports from only the subject Communist country or countries.

Section 406(c) authorizes the President, prior to a Commission determination, to take temporary emergency action with respect to imports from a Communist country or countries whenever he finds that there are reasonable grounds to believe that there is market disruption. When taking such action, the President must also request the Commission to conduct an investigation under section 406(a).

The Commission's rules concerning the filing of section 406 petitions and the conduct of investigations thereunder are set forth in part 201 and part 206, subparts A and C, of its Rules of Practice and Procedure (19 CFR Parts 201 and 206 Subparts A and C).

For further information contact:

Secretary
U.S. International Trade Commission
701 E Street NW.
Washington, D.C. 20436
Phone: 202/523-0161

Investigations Under the Agricultural Adjustment Act

If, under the provisions of section 22 of the Agricultural Adjustment Act, (7 U.S.C. 624), the Secretary of Agriculture has reason to believe that any article is being or is practically certain to be imported into the United States in such quantities as to materially interfere with any program conducted by the U.S. Department of Agriculture (USDA), or reduce substantially the amount of any product processed in the United States from any agricultural commodity covered by a USDA program, he will so advise the President.

If the President agrees that there is reason for such belief, he will cause an immediate investigation to be made by the U.S. International Trade Commission with a report to him of its findings and recommendations. Following receipt of the Commission's report, the President may impose either an import quota or an appropriate import fee (not in excess of 50 percent ad valorem) to alleviate the difficulty. In any case where the Secretary of Agriculture determines and reports to the President that a condition exists requiring emergency treatment, however, the President may take immediate action under section 22 without awaiting the recommendations of the Commission, such action to continue in effect pending the report and recommendations of the Commission and action thereon by the President. Requests for investigations under section 22 are normally filed with the Secretary of Agriculture.

Parts 201 and 204 of the Commission's Rules of Practice and Procedure (19 CFR Parts 201 and 204) set forth procedures for the conduct of Commission investigations under the Agricultural Adjustment Act.

For further information contact: Under Secretary for International
Affairs and Commodity Programs
Room 210-A, Administration Bldg.
U.S. Department of Agriculture
Washington, D.C. 20250
Phone: 202/447-3111

THE EFFECTS OF THE TOKYO ROUND OF MULTILATERAL TRADE NEGOTIATIONS ON THE U.S. ECONOMY: AN UPDATED VIEW

The Congress of the United States
Congressional Budget Office

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

SUMMARY

The formal negotiation phase of the Tokyo Round of Multilateral Trade Negotiations (MTN) was concluded in Geneva on April 12, 1979, with 23 countries, including the United States, agreeing to a package of measures designed to reduce obstacles to international trade. Eighteen other countries endorsed only parts of the complete package. The agreements reached in Geneva included a multilateral reduction in tariffs, the establishment of new codes of conduct for international trade, some reductions in barriers to trade in specific commodities, and reforms of the framework of the General Agreement on Tariffs and Trade (GATT), the general set of principles that has governed international trade throughout the postwar period.

In accordance with the terms of the Trade Act of 1974, which gave the U.S. President authority to negotiate changes in U.S. trade policy, President Carter has submitted to the Congress the Tokyo Round agreements and the legislation necessary to implement these agreements. The Trade Act stipulates that the Congress must approve or reject the agreements and the legislation without amendment within 90 legislative days. The agreements will enter into force for the United States when and if the implementing legislation is approved by both houses of the Congress. The Trade Act gives the President power to reduce U.S. tariffs without subsequent Congressional approval. Accordingly, only the non-tariff parts of the Tokyo Round agreements require Congressional action.

THE EFFECTS OF THE TOKYO ROUND AGREEMENTS

The overall effects of the Tokyo Round agreements on the U.S. economy are likely to be positive but small. By the time the agreements are fully implemented (as much as ten years in the future), the principal predictable effects are likely to be the following. (Excluded from all of these estimates are important long-term nonestimable effects, which are generally believed to be highly beneficial to the United States.)

- The Tokyo Round agreements will cause almost no change in overall employment. Estimates of the effects of tariff reductions on total employment in the United States range from a loss of 300 jobs to a gain of 2,300 jobs. The combined effect of tariff reductions and changes in nontariff barriers to trade will be, according to one estimate, a gain of 15,000 jobs.

- The sectoral distribution of employment changes will favor the U.S. agricultural sector and a number of U.S. industries employing sophisticated technology and highly skilled labor. Adversely affected by increased competition from abroad will be some U.S. industries relying on relatively unskilled labor and older, well-known technologies. In no industry are decreases in job opportunities resulting from the Tokyo Round agreements expected to be large enough to necessitate layoffs; normal economic growth and voluntary turnover of workers should be sufficient to absorb whatever reductions in job opportunities may be caused by the Tokyo Round agreements.

- The regional distribution of employment gains and losses will be close to uniform. No region of the United States will experience other than very small changes in employment as a result of the Tokyo Round agreements. In the West and the Midwest, job opportunities will increase very slightly; in the East and the South, they will decline slightly.

- The Tokyo Round agreements should lower U.S. consumer prices. Estimates of the reduction in consumer prices range from 0.4 to 0.6 percent to (probably more realistically) 0.07 percent.

- The evidence on how the agreements will affect the value of the dollar is mixed, but all studies agree that, whatever the direction of change, its magnitude will be very small.

- Estimates of the total net benefit to the U.S. economy resulting from the agreements are in the range of $1 billion to $1.5 billion per year. Included in these estimates are only direct, near-term benefits. Some estimates of longer-term gains have gone as high as $10 billion per year.

MAJOR AGREEMENTS REACHED IN THE TOKYO ROUND

Tariff Reductions

The major industrialized trading countries agreed to tariff reductions on a wide variety of items. With some important exceptions, these tariff reductions will be phased in over an eight-year period beginning January 1, 1980. In general, the less developed countries did not agree to tariff reductions.

Among the industrialized countries the size of tariff reductions varies--both as a percentage of existing tariffs and as absolute reductions in tariff rates. Summary Tables 1 and 2 show average depths of cut and average tariff rates prevailing before and after the reductions are fully implemented. On average, U.S. tariffs will be slightly lower after full implementation than will those of the other major participants, even though other countries made larger absolute reductions in tariff rates than did the United States. In general, reductions in agricultural tariffs were less than reductions in other tariffs.

U.S. negotiators made special efforts to protect U.S. industries thought to be especially sensitive to increased import competition, and available evidence suggests that they were largely successful. U.S. tariff reductions on the products of these industries are less than on other products, and for some items (particularly apparel) applicable nontariff measures will be made more restrictive. In only a very few U.S. industries will reductions in job opportunities over the entire eight-year period for phasing in tariff reductions amount to more than one percent of present employment. In all cases where reductions in job opportunities are expected, normal labor turnover should allow these work force reductions to take place without layoffs.

This special protection for vulnerable U.S. industries was not obtained without cost. In order to protect particular U.S. industries, U.S. negotiators presumably had to allow other nations to protect their own vulnerable industries, thus reducing potential export opportunities for some U.S. producers. Further, by protecting certain U.S. industries from lower-priced foreign imports, U.S. negotiators have limited the beneficial effect of the trade agreements on U.S. prices.

SUMMARY TABLE 1. AVERAGE DEPTHS OF CUT IN TARIFFS ON DUTIABLE IMPORTS: IN PERCENT

Country	All Dutiable Imports	Dutiable Agricultural Imports	Dutiable Manufactured Imports	Other Dutiable Imports a/
United States	29.6	17.2	30.9	51.2
European Community b/	29.3	30.0	29.0	31.4
Japan c/	10.7	3.6	11.8	5.9
Canada c/	28.0	20.0	28.1	48.8

SOURCE: Office of the Special Representative for Trade Negotiations.

a/ Included in this category are basic minerals and ores, coal and petroleum, and coal and petroleum products.

b/ Countries of the European Community include: West Germany, France, Italy, Belgium, the Netherlands, Luxembourg, Denmark, Ireland, and the United Kingdom.

c/ For Canada and Japan, the figures shown refer to reductions in tariff rates actually applied. Both countries agreed to somewhat larger reductions in their respective "bound" rates--the maximum tariff rates allowed under the terms of the General Agreement on Tariffs and Trade.

Agreements on Nontariff Measures

Agreements on nontariff measures were a new feature of the Tokyo Round negotiations; previous rounds of trade talks had concentrated on tariff reductions. For this reason, and because nontariff practices are regarded as the major barriers to trade today, these nontariff agreements are generally seen as the most important elements of the Tokyo Round package. The agreements are of three types: codes of conduct for international trade, reform of the GATT framework, and reductions in nontariff barriers affecting particular commodities.

Six major codes for the conduct of international trade were agreed to.

The Government Procurement Code requires that, in making decisions on nonmilitary procurement, governments and national entities under the substantial control of governments will give foreign producers treatment no less favorable than is given to domestic producers. This code is expected to result in a net increase in jobs in the United States.

The Subsidies/Countervailing Duties Code clarifies GATT policy regarding both government export subsidies and the imposition of countervailing duties. In agreeing to this code, the United States has undertaken not to impose countervailing duties without first determining that foreign subsidies are causing or threatening to cause injury to domestic U.S. industries. The code is not expected to have any immediate, direct effects on U.S. trade. In the longer term, it may serve to prevent the outbreak of trade wars resulting from increased government involvement in domestic economic activities.

The Anti-Dumping Code clarifies GATT policy toward dumping, the selling of goods in foreign markets below the prices at which similar goods are sold in domestic markets. Current U.S. practice generally conforms with the new code, and few changes are expected.

The Customs Valuation Code provides new guidelines for valuing imports for customs purposes. Its intent is to prohibit arbitrary escalation of import values for the purpose of increasing tariffs. Under the terms of the code, the United States will discontinue its use of the American Selling Price (ASP) method of valuation. For most ASP items, however, tariff rates will be adjusted to yield roughly the same tariffs under the new valuation procedures as under the old. The code is thus expected to have little effect on U.S. trade.

The Standards Code outlines procedures for setting and enforcing national health, safety, performance, quality, and labeling standards for imports. Its intent is to simplify compliance with such standards and to prevent their use as barriers to trade. Because standards are of particular importance for high-

SUMMARY TABLE 2. AVERAGE TARIFF RATES ON DUTIABLE IMPORTS BEFORE AND AFTER TARIFF REDUCTIONS: IN PERCENT

Country	All Dutiable Imports	Dutiable Agricultural Imports	Dutiable Manufactured Imports	Other Dutiable Imports a/
United States				
Before	8.1	8.7	8.1	4.1
After	5.6	7.2	5.6	2.0
Difference	2.4	1.5	2.5	2.1
European Community b/				
Before	9.9	7.0	10.0	10.2
After	7.0	4.9	7.1	7.0
Difference	2.9	2.1	2.9	3.2
Japan c/				
Before	14.0	14.0	15.3	1.7
After	12.5	13.5	13.4	1.6
Difference	1.5	0.5	1.8	0.1
Canada c/				
Before	12.5	6.5	12.8	4.3
After	9.0	5.2	9.1	2.2
Difference	3.5	1.3	3.6	2.1

SOURCE: Office of the Special Representative for Trade Negotiations.

NOTE: Detail may not add to totals because of rounding.

a/ Included in this category are basic minerals and ores, coal and petroleum, and coal and petroleum products.

b/ Countries of the European Community include: West Germany, France, Italy, Belgium, the Netherlands, Luxembourg, Denmark, Ireland, and the United Kingdom.

c/ For Canada and Japan, the figures shown refer to reductions in tariff rates actually applied. Both countries agreed to somewhat larger reductions in their respective "bound" rates--the maximum tariff rates allowed under the terms of the General Agreement on Tariffs and Trade.

technology products, this code could be especially beneficial for the United States.

The Import Licensing Code provides some guides for import-licensing practices. It is intended to ensure that these practices are not used to restrict trade in a discriminating way. Among other provisions, it prohibits the rejection of applications for import licenses because of minor clerical errors.

The reform of the GATT framework has two basic purposes: to bring some provisions of the GATT more into line with the needs of developing countries and to strengthen the GATT mechanism for settling disputes. With regard to the first purpose, the reforms allow developed countries to grant special concessions to less developed countries without making similar concessions to other developed countries. In return, the less developed countries agree gradually to accept the trading responsibilities of developed countries as their economic development proceeds. With regard to the second purpose, the reforms detail and expand GATT procedures for consultation and dispute settlement.

Agreement was also reached on nontariff barriers affecting some particular commodities.

Quotas on imports of U.S. agricultural products were liberalized by Japan, Canada, the European Community, and some less developed countries. The United States has temporarily eased restrictions on imports of cheese. In the future, however, new U.S. policies on cheese imports will prove more restrictive than current policies. On net, these changes in agricultural trade policies should allow increases in U.S. agricultural exports.

An agreement on trade in civil aircraft eliminates all tariffs on civil aircraft, aircraft engines, and parts, and binds all signatory governments to purchase civil aircraft purely on the basis of price, performance, and delivery times. Because the United States is the world's leading producer of aircraft, it is expected to increase its foreign sales as a result of this agreement.

WHAT THE TOKYO ROUND DID NOT ACCOMPLISH

The successful conclusion of the Tokyo Round negotiations represents a major accomplishment--particularly in light of the recent instability of the international economic system. The negotiations did not, however, accomplish all that some observers had hoped. Among the disappointments were the failure to agree on a safeguards code detailing steps to be taken in the face of sudden increases in imports; a failure to deal with quantitative trade restrictions; the refusal of all but one less developed country to endorse the entire package of agreements; the inability to strengthen appreciably the GATT mechanisms for enforcement and dispute settlement; and the absence of discussion of large-scale, long-term bilateral barter arrangements between countries. These issues stand as the major problems to be faced in future bilateral or multilateral trade talks.

ABC

Assistance to Business

in Canada

The Federal Government's
directory of business assistance
programs, services and incentives

Aussi publié en français

Board of Economic Development Ministers
Conseil des ministres au Développement économique

Chapter 3:

FEDERAL ECONOMIC DEVELOPMENT ASSISTANCE

What is the extent of federal economic development assistance to the business community? The federal government provides over $8 billion each year in grants, expenditures, contributions, loans, loan guarantees and insurance to promote economic development in Canada. Of this amount, more than $6 billion is provided in direct support to business, including independent businessmen, fishermen and farmers. In addition special tax incentives, designed to stimulate economic development, reduce taxes by hundreds of millions of dollars each year. Numerous federal services also play a major role in the federal economic development effort.

This extensive federal direct support for business firms is generally aimed at the following concerns that you will be familiar with:

—strengthening the financial condition of business;
—encouraging research and development;
—promoting exports;
—upgrading labour skills;
—developing management expertise;
—facilitating adjustment and restructuring;
—reducing market risks;
—improving market knowledge and know-how; and
—promoting regional development.

Direct Financial Support to Business

The table which follows lists some of the major federal programs which provide direct financial support to business. Not included in this list are direct subsidies to business such as the Canadian Transport Commission subsidies (A.821) to the railway industry ($292 million), railway rehabilitation assistance ($70 million), shipbuilding subsidies ($59 million), subsidies to dairy farmers ($294 million) and oil import compensation payments to eastern refineries ($631 million). Direct support to various industries is also provided under the Department of Regional Economic Expansion's subsidiary agreements. In addition, special contributions are made from time to time to stimulate particular economic development opportunities. For example, the federal government has recently approved incentive grants totalling more than $80 million for the expansion of major drydock facilities in British Columbia, Newfoundland and New Brunswick, and for the construction of a major new automotive factory in Ontario.

MAJOR PROGRAMS OF DIRECT FEDERAL ASSISTANCE TO BUSINESS

($ Millions in 1978-79 or latest year)

	Grants & Contrib.	Loans	Loan Guarantees/ Insurance	Total
FINANCING				
Federal Business Development Bank		556		556
Regional Development Incentives	77			77
Small Business Loans			200	200
Farm Improvement Loans			232	232
Fisheries Improvement Loans			27	27
Farm Credit Corporation		513		513
Indian Economic Development Fund	32	3	3	38
EXPORTS				
Export Development Corporation				
—Export Loans and Guarantees		—— 1,071 ——		1,071
—Export Insurance (Value of Goods)			1,299	1,299
Program for Export Market Development	6			6
Promotional Projects Program	5			5
RESEARCH AND DEVELOPMENT AND INNOVATION				
Industrial Energy R&D Program	2			2
Industrial Research Assistance Program	18			18
Enterprise Development Program	26			26
Defence Industry Productivity Program	40	6		46
Program for Industry Laboratory Projects	8			8
Scientific & Technology Employment Program	6			6
Unsolicited Proposals Program	14			14
Cooperative Projects with Industry	2			2
LABOUR FORCE				
Canada Manpower Industrial Training Program	84			84
Job Experience Training	45			45
ADJUSTMENT ASSISTANCE				
Enterprise Development Program		6	120	126
Canada Manpower Mobility Program	12			12
Canada Manpower Consultative Service	3			3
Adjustment Assistance Benefits	3			3

Indirect Economic Development Support

While this handbook focusses on the direct assistance—both financial and services—available to you from the federal government, the government's economic development effort also includes several billion dollars of further support for economic development. For example, through Petro-Canada, Atomic Energy of Canada, Eldorado Nuclear, and the Lower Churchill Development Corporation, the federal government is directly engaged in bringing on stream numerous multi-billion dollar energy projects to help provide the energy needed for Canada's economic development. The Canada Employment and Immigration Commission spends over half a billion dollars annually to upgrade the skills of the labour force through the Canada Manpower Training Program. Through Development Agreements with each province and the Yukon Territory, more than $300 million a year is provided for industrial development and infrastructure, as well as to the agriculture, forestry, fishing, mining and tourism industries. In addition, the federal government spends more than a billion dollars annually on research and development in government laboratories, in order to keep Canada at the forefront of industrial, agricultural, forestry, fisheries and energy technologies.

The high priority given to economic development by the federal government is reflected in this extensive range of assistance, and particularly in the direct assistance—outlined in detail in this handbook—that you can access.

Chapter 8:

DEVELOPING YOUR WORK FORCE

The federal government has a wide range of services and programs to assist you in employing workers in your business and in obtaining manpower with the skills required to run your operation. Such assistance includes:

—*Occupational Training*

Supporting industry through developing workers with the job skills necessary to meet your current and future needs, paying particular attention to: the retraining of workers displaced by technological change, the provision of support for training new workers, and the problems of manpower scarcities among high-level skills that are critical for future industrial development.

—*Employment Subsidies*

Enabling businesses to increase output and hire additional workers by lowering wage costs.

—*Recruitment Services*

Filling your current job vacancies as rapidly as possible, and providing you with information on supply-demand conditions and hiring standards in the labour market.

—*Collective Bargaining Support*

Fostering healthy industrial relations for both labour and management, through promoting the smooth operation of the bargaining process.

—*Employee Health, Safety and Job Satisfaction*

Providing advice on the operation of your firm's health services to workers, on worker safety and job satisfaction.

—*Management Improvement*

Assisting the development of managerial expertise, particularly among small businesses, and providing expert consulting services to advise firms encountering specific management problems.

OCCUPATIONAL TRAINING

Occupational skill development for the labour force is provided by a variety of training and upgrading programs which focus on particular training requirements: classroom instruction, on-the-job upgrading, and development of highly qualified manpower.

Training-in-industry is extremely effective, and in some cases essential, in developing workers with skills to meet firms' own specific job needs. Federal support in this area has doubled in the last five years. Where such training is appropriate, the *Canada Manpower Industrial Training Program* (CMITP) offers financial assistance to you, the employer, to start your own training "in-house" or to expand your existing training capability (A.702). The program is available for a wide range of industrial training needs: orientation skills for newly hired workers; upgrading existing employees to meet the technical requirements of new production processes; providing new industrial skills for workers whose employment is threatened; and support for apprenticeship. In addition to reimbursing direct training costs, CMITP provides wage subsidies to employers to meet the costs of trainees' reduced productivity during the training period. The program provides approximately $100 million in financial support to employers annually. Special extended financial support for industrial training is provided under the *Critical Trade Skills Training Program* (A.704). If you are providing training for your workers in certain higher-skill trades occupations where there are acute labour shortages, then you may be eligible for support under the program. This new program, with an initial annual budget of $20 million, is provided because of the heavy costs which firms encounter in developing such skills in their work force.

The *Canada Manpower Training Program* (CMTP) provides for courses of up to 52 weeks' duration at federal expense to members of the labour force, by sponsoring trainees at provincial training institutions. Courses available are tailored to the occupational needs of local businesses, and include initial pre-employment skill development; upgrading of existing skills; apprenticeship; and basic educational programs to enable workers to proceed to further skill training. More than $460 million per annum is allocated for federal assistance under this program, including some $85 million for classroom instruction of apprentices (A.703).

The above programs focus essentially upon operational and production skills in business and industry. If your firm is concerned with developing and utilizing highly qualified scientific technical and research manpower to meet specialized needs in its operations, the *Scientific and Technical Employment Program* (A.516) and the *Industrial Post-Doctoral Fellowships Program* (A.506) may be of assistance. These programs provide financial support to help highly qualified workers transfer to private industry and utilize their skills in industrial and commercial operations.

EMPLOYMENT SUBSIDIES

The availability of wage subsidies linked to the hiring of extra workers lowers additional labour costs, and can thus assist you expand business activities and production.

The *Employment Tax Credit Program* provides a federal tax credit of up to $2.00 per hour for 12 months to firms which hire additional workers beyond their normal requirements (C.106).

Direct financial assistance by way of wage subsidies is available under the *Job Experience Training Program* (JET) for hiring recent young labour force entrants who are having difficulties in finding a job due to lack of work experience (A.705). For your firm to be eligible, the job filled must be over and above planned employment levels. The additional labour cost is subsidized at the lesser of $1.50 per hour or 50% of hourly wages for a total of up to 26 weeks. Both employers and workers benefit. The experience provided by JET greatly enhances new recruits' basic working skills, while employers obtain financial assistance and useful additions to staff. The program now gives firms over $45 million annually.

Additional support is available to small businesses under the *Small Business Intern Program*, which aims to enhance firms' growth potential and competitive position by supporting the provision of openings for recent graduates. The program will pay 50% of the wage costs up to $675 per month for up to 12 months (A.706).

RECRUITMENT SERVICES

The coast-to-coast network of over 550 *Canada Employment Centres* (CEC's) is available to assist you in securing suitably qualified workers (B.402). Overall, more than one million workers are placed by the CEC's each year with employers who register vacancies with them. Where openings cannot be filled locally, assistance is provided in recruiting workers from other areas, including recruitment from abroad where necessary. If required, financial assistance is available under the *Canada Manpower Mobility Program* for workers to move from localities with no suitable job opportunities to areas where there is an industrial demand for their skills—thereby aiding both employers and workers (A.707).

Further recruitment assistance is available to employers through the provision of information on prevailing wage rates, occupational shortages, hiring requirements, and the availability of workers in local areas—all important factors when you are faced with difficulties in labour recruitment, or when considering alternative locations for a new operation.

COLLECTIVE BARGAINING SUPPORT

The Department of Labour provides a number of services to assist trade unions and employers under federal jurisdiction in the negotiation of collective agreements. The fostering of good industrial relations helps maintain stable economic and employment conditions. In addition to its *Mediation, Conciliation and Arbitration Services* (B.403), the Department of Labour also provides data on collective agreements, wages, working conditions, and occupational health and safety requirements. Both unions and management use this *Labour Information Service* (B.405) extensively, and the material is also important for determining wage rates in non-union areas. A special *Collective Bargaining Information Centre* (B.401) is being established to meet the basic data needs of labour and management in the collective bargaining process. As part of these industrial relations support activities, assistance is also provided for the professional development of union officials under the *Labour Education Program* (A.812).

EMPLOYEE HEALTH, SAFETY AND JOB SATISFACTION

The Department of Health and Welfare provides consulting *Health Protection Services* to firms on the organization and operation of their own health services to workers. Facilities are also provided to safeguard workers by assessing and investigating the health effects of environmental pollutants, radiation sources, chemical hazards and other dangerous materials or processes (B.506). Information on measures to improve the *quality of working life* is provided by the Department of Labour (B.409).

MANAGEMENT IMPROVEMENT

The federal government appreciates the importance of providing support and assistance for management, particularly in the case of small and medium-sized businesses. This assistance to you basically takes two forms: training and upgrading seminars to assist in developing management expertise, and provision of counselling and consultancy assistance to firms with particular management problems.

Several sources of assistance are available for managerial development. In certain areas the *Canada Manpower Training Program* (A.703) offers preparatory courses in basic management skills, while supervisory training is available under the *Canada Manpower Industrial Training Program* (A.702). The Federal Business Development Bank (FBDB) operates an extensive service designed to meet the needs of small business, including the provision of seminars under its *Small Business Management Training Program* (B.408). These seminars, which cover the full range of skills required to run an efficient operation, are provided at a modest fee in cities and towns across Canada. Your local Chamber of Commerce, Board of Trade, or local branch of FBDB can provide you with details. FBDB also produces material for use in Adult Education courses given at local colleges. Other management development programs include the *Management Advancement Program* (B.407, D.6) aimed at developing university courses to promote expertise in export marketing, and the *Interchange Canada Program* (B.404) for firms concerned with developing their staff's experience in government.

The Federal Business Development Bank also provides management counselling services under its *Counselling Assistance to Small Enterprises* (CASE) Program. If you are encountering operational, financial or marketing problems, CASE may be the answer. Experienced business counsellors are available to study your business operations "on site" and recommend action (B.406). Other consultancy services are available from universities sponsored by the *Management Advisory Institutes Program* (B.407, D.6).

Chapter 10:

ASSISTANCE TO SPECIFIC SECTORS

As a business person, you will want to be aware of the full range of federal assistance available to your industry sector. Because of the varying types of production, marketing and other problems encountered in different industry sectors, individual sectors receive different types and levels of support from the federal government. These support measures can help you improve the efficiency, productivity and profitability of your operation.

Contact Points

To provide support and service to you and your industry group, the federal government has established specific contact points for most sectors. The Department of Industry, Trade and Commerce has ***Industry Sector Branches*** providing market development advice and industry guidance for firms in the following sectors: chemicals, textiles and consumer products, electrical products and electronics, machinery, transportation, agriculture, fisheries, forest products, mining, distribution, and construction (B.104). For many sectors the federal government also has a specific department offering specialized advice and assistance of various forms to the associated industry sector. Such departments and agencies include Energy, Mines and Resources; Agriculture; Fisheries and Oceans; Environment (including the Canadian Forestry Service); Transport, and the Canada Mortgage and Housing Corporation.

Coverage of Chapter

This chapter outlines those measures developed specifically to aid firms in particular industries—where conditions have required that special assistance and support be provided. In particular, the following sections indicate the special sectoral assistance provided through:

—*Tax Measures*;

—*Industry Development Support* including departmental information, advice and assistance; incentive programs; and federal-provincial development agreements;

—*Financing Assistance*; and

—*Marketing and Price Stabilization*.

The range of assistance provided to individual sectors is currently under review, as a result of the recent consultative task force process. Twenty-three task forces were established in 1978, with representation from business and labour, to examine individual sectors and make recommendations to government. Their recommendations and those of the subsequently established overview committee have been carefully considered by the federal government. The government has responded to all recommendations in detail, and is considering further initiatives. The following inventories of sector-specific assistance may therefore be subject to further development as the existing range of assistance for each industry sector is reviewed.

Sector-specific assistance is described in this chapter for the following sectors:

- *Manufacturing*
  - Shipbuilding
  - Footwear, Clothing and Textiles
  - Aerospace and Defence
  - Automotive
- *Resource-Based*
  - Minerals and Energy
  - Agriculture
  - Fisheries
  - Forestry and Forest Products
- *Services*
  - Tourism
  - Book Publishing
  - Films
- *Construction*

For several of these sectors, the tables provide more detailed lists of the range of federal assistance available than given in the text.

MANUFACTURING

If you are a manufacturer, special federal government assistance to your sector is available through:

- *Tax Measures;* and
- *Industry Development Support* (both generally and for specific industries).

Tax Measures

The manufacturing and processing sectors benefit from *tax reductions* (C.103), with the federal tax rate reduced to 30%, and 10% for small businesses. In addition, an *accelerated capital cost allowance* involving a two-year write-off is allowed for machinery and equipment used in manufacturing or processing goods for sale or lease in Canada (C.102). Further assistance for investment in machinery is provided by the *Machinery Program* (MACH) which assists you to acquire advanced production equipment at the lowest possible cost, by providing for the remission of import duty on machinery not available from Canadian manufacturers (C.305).

Industry Development Support

Under the *Enterprise Development Program* (A.302), financial assistance of last resort is provided, to small and medium-sized firms in the manufacturing and processing sectors, for high risk innovation and adjustment projects. Grants and loan guarantees are also available through the *Regional Development Incentives Program* to firms which locate, expand, or modernize their operations in Canada's slow-growth areas (A.401).

Special support provisions are also provided for the following specific industries:

—Shipbuilding

If your firm meets certain conditions, the *Shipbuilding Industry Assistance Program* (SIAP) provides 20% subsidies to Canadian firms to maintain and improve the industry's competitiveness in bidding for new orders in the face of foreign competition (A.815). For smaller vessels, *Fishing Vessel Construction Assistance* provides financial assistance of up to 30% of the approved costs of construction, modification, or conversion of fishing vessels (A.620).

Qualified Canadian vessels are also eligible for *accelerated capital cost allowances* giving a three-year straight line write-off (C.102).

To exploit the ship repair demand related to foreign vessels operating in Canadian waters, *ship repair and dry dock facilities* are being extended in St. John's, Halifax, St. John, and Vancouver with federal financial support (A.815).

—Footwear, Clothing and Textiles

Due to the particular adjustment problems encountered in firms in these sectors, special provisions are available. In addition to special adjustment support under the *Footwear and Tanning Industries Adjustment Program* (now part of the Enterprise Development Program) (A.304), import quotas have been established to provide added protection to firms while modernization plans are being implemented. Improved productivity and competiveness in these industries are also promoted by the *Fashion Design Assistance*

Program (A.806), and the *Footwear and Leather Institute of Canada* (A.304).

In addition, to assist manpower adjustments in these industries, special financial support is available to workers affected by major lay-offs. The *Industrial Adjustment Assistance Program* (A.305) provides extended income support to workers affected by employment disruptions, either associated directly with import competition (in the case of Textiles and Clothing) or as a result of the effects of government-supported industry restructuring (Footwear and Tanning).

—Aerospace and Defence Industries

Firms in these sectors are provided with specific assistance from the *Defence Industry Productivity Program* (DIP), and research and procurement assistance in space development technologies.

Under the DIP Program, financial assistance to Canadian based companies includes support for selected research and development; support for acquisition of advanced machine tools and other manufacturing equipment; and assistance with pre-production expenses (A.301). To facilitate access to the U.S. defence market, the associated *Canada-U.S. Defence Production and Development Sharing Arrangement* allows Canadian firms to compete for U.S. defence contracts on the same basis as U.S. industry.

To encourage the development of Canadian *space technology*, the federal government offers research and development facilities at subsidized rates, provides research grants and contracts in space sub-systems and components, and gives financial assistance to purchase Canadian equipment in space procurement (B.204).

—Automotive Industry

The continued development of Canada's automotive industry is fostered by the *Canada-U.S. Automotive Agreement* which provides for the duty-free movement of vehicles and parts between both countries by eligible firms, conditional upon certain requirements on production content. Since the establishment of the Agreement in the 1960's, the development and industrial adjustment of the automotive sector has been an area of major concern to the federal government, with support available initially through the Automotive Adjustment Assistance Program and more recently under the *Enterprise Development Program* (A.302). In addition the federal government recently made available a $40 million grant to assist in the establishment of the Ford Motor Co.'s $533 million engine plant in Southern Ontario.

MINERALS AND ENERGY INDUSTRIES

These sectors receive a wide range of tax incentives, services and support measures, reflecting the importance of mineral and energy supplies in contributing to the continued progress of Canada's industrial development. In addition, Canadian industry in general has benefitted enormously from governmental assistance through *Oil Import Compensation Payments* (A.820) which ease the transition towards higher world oil prices; a total of some $5.4 billion in financial support has been provided to date. Canadian industry also benefits greatly from government support and initiatives in the development of energy conservation technology and processes.

If your business operation is in the minerals and energy sector, the government provides support to you involving:

—*Tax Measures*, encouraging investment in exploration and development of energy and mineral resources;

—*Industry Development Support*, providing capital investment in energy generation projects and resource development companies, and making technical information and research support available to the industry; and

—*Energy Conservation and Renewables*, promoting and stimulating these areas.

Tax Measures

The provision of tax incentives has played a major role in stimulating much of the extensive exploration and development of Canadian mineral and energy resources, particularly frontier developments as in the Beaufort Sea and non-conventional sources such as the tar sands.

Several income tax provisions generate tax savings on a wide range of expenses for resource exploration and development (C.108). Besides beneficial treatment of *expense deductions*, there are measures relating to *capital cost allowances*, *earned depletion*, special compensation for *frontier exploration*, and special provisions for *prospectors and grubstakers*.

Industry Development Support

The federal government has made assistance available to provinces in the initial development of nuclear power generating facilities by providing loans of up to 50% of capital costs. To date some $500 million in loan assistance has been made available to Quebec and New Brunswick. Federal-provincial development activities also include an agreement to create the Maritime Energy Corporation to develop supplies of electrical power in New Brunswick, Nova Scotia, and Prince Edward Island. In Newfoundland, the recently established Lower Churchill Development Corporation has been set up to examine the feasibility of a multi-billion dollar expansion of the Province's hydro-electric capacity.

Federal financial support to the energy industry is also provided for joint exploration and development ventures with the private sector. Through Petro-Canada, a federal crown corporation, government assistance is provided by means of equity financing and other support for several major resource developments including Pan-Arctic Oils, Polar Gas, and Syncrude's tar sands operation.

Technical information and research support are provided by the *Department of Energy, Mines and Resources* to companies involved in mineral, metal and fuel extraction, and processing, including off-shore developments (B.313). As part of this technical support, the *Canada Centre for Mineral and Energy Development* (CANMET) conducts research and development projects, in co-operation with industry, in estimating and developing mineral and energy reserves, improving recovery techniques and developing energy conservation technology (B.312). The *Canada Centre for Remote Sensing* undertakes developmental work on technology and instrumentation to collect and analyze data for the management of Canada's natural resources (B.314). And the *National Mineral Inventory* provides information on reserves and particularly significant deposits (B.310).

Federal-provincial *Mineral Subsidiary Agreements* have been established with Newfoundland, Nova Scotia, New Brunswick, Quebec, Manitoba, and Saskatchewan. Under these agreements, which involve some $15 million per annum in federal assistance, the government shares the costs of programs involving geological surveys, base metals exploration and processing, and provision of access roads (A.400 Series). Special provisions have been made under the *Canada-Saskatchewan Heavy Oil Development Agreement* to provide grants of up to 50% of the capital costs of approved projects designed to develop enhanced methods of recovering heavy oil (A.505). And *Atomic Energy of Canada Ltd.* (AECL) pursues an active program to transfer its laboratory-developed technology to private industry (B.206).

Energy Conservation and Renewables

In recognition of the importance of conservation as a means of extending Canada's energy resources, the federal government has introduced a wide range of support measures. These measures include programs aimed at promoting the conservation of traditional energy sources—such as the *Energy Waste Detection Program* (B.308), the *Waste Recycling and Recovery Program* (A.519), *Development and Demonstration of Resource and Energy Conservation Technology Program* (A.503), and the *Low Energy Building Awards Program* (A.509). The *Industry Energy Research and Development*

Program provides financial assistance for research and development of new and improved processes and equipment (A.508).

Other programs are aimed at stimulating the use of alternative energy sources, offering capital cost-sharing under the *Forest Industry Renewable Energy Program* (A.625), R&D contracts under the *Energy From the Forests Program* (A.624), and the provision of *Biomass Energy Loan Guarantees* (A.111). The development and use of solar energy equipment is encouraged by the *Program of Assistance to Solar Equipment Manufacturers* (A.512) and the *Purchase and Use of Solar Heating Program* (A.814).

AGRICULTURE

If you are a farmer or are in the agriculture industry, the federal government assists you through:

—*Financing Assistance* for farm investments;

—*Marketing and Price Stabilization*;

—*Industry Development Support*; and

—*Tax Measures*.

Financing Assistance

Several special financing provisions have been established to meet the industry's needs. Among the more important is the availability of long-term mortgages through the *Farm Credit Corporation* (A.202) for farm business investment, with over half a billion dollars of new loans and renewals negotiated in 1978-79. Government guarantees are also available for *Farm Improvement Loans* (A.201) through approved lending institutions. Federal support in this area amounted to $232 million in 1978-79.

Marketing and Price Stabilization

Under the *Agricultural Stabilization Act* (A.601), payments of over $364 million were made in 1978-79 to farmers for price support operations for animals, dairy products, and grains. $60 million was paid to grain producers under the *Western Grain Stabilization Act* (A.611). Other major support measures include $70 million for *Crop Insurance* (A.204), *Advance Payments for Crops* (A.205) and *Freight Charges Equalization* (A.607-609). The attached table lists these and other marketing assistance programs.

Industry Development Support

The *Department of Agriculture* provides extensive information services on livestock and produce prices and market developments (B.301). Other government assistance includes the provision of research services (A.603), manpower recruitment and management improvement (A.708), as well as the provision of support for feed grain storage facilities (A.606). The *Prairie Farm Rehabilitation Administration* provides on-going programs to conserve and develop soil and water resources in the prairie provinces (A.613). Federal-provincial *Agriculture Subsidiary Agreements* (A.400 Series) also provide substantial developmental support for the farming and processing industries. The attached table lists these and other agricultural development programs and services.

Tax Measures

Specific tax measures have been established to assist the farming industry, in recognition of the problems of extensive fluctuations in income which occur. Income from farming and ranching may be computed according to the *cash method* which, for example, allows start-up expenses (such as the costs of establishing a new herd) to be carried forward on an extended basis to later more profitable years (C.212). In addition farmers are permitted to opt for *block income averaging* (C.211) over a five year period. Farm operating costs are also reduced by the exemption from federal *sales taxes* (C.301).

In recognition of the importance of family farm units, special rules provide for the *inter-generational transfer of family farms* (C.209) without immediate tax liability for accrued capital gains.

FISHERIES

If you are a fisherman, the federal government assists you through:

—*Financing Assistance* for fisheries investments;

—*Marketing and Price Stabilization*;

—*Industry Development Support*; and

—*Tax Measures*

Financing Assistance

Under the *Fisheries Improvement Loans Program* the federal government guarantees term loans to fishermen for the purchase and repair of vessels and equipment (A.206). In 1978-79 loans from chartered banks and other approved lenders under this program totalled $27 million.

Marketing and Price Stabilization

The federal *Fisheries Prices Support Board* undertakes marketing activities and protects fishermen against sharp fluctuations in prices (A.622). Further marketing assistance is provided by the *Canadian Saltfish Corporation* (A.617) and the *Freshwater Fish Marketing Corporation* (B.305).

Industry Development Support

The Department of Fisheries and Oceans provides you with assistance through trade and market reports and forecasts, restoration and stock enhancement programs, fisheries research and fish inspection services (B.303-304; A.619). It also provides industry development support through a range of programs, listed in the attached table. For example, capital expenditures on the *Salmonid Enhancement Program* (A.623) amounted to $20 million in 1978-79—part of an overall $150 million development over a seven-year period. Grants to *Atlantic Salmon and Lobster Fishermen* (A.621) amounted to $4.6 million. In addition *Inshore Fishery Development* in Newfoundland is supported by a federal-provincial regional development agreement (A.402).

Tax Measures

The fishing industry benefits from *block income averaging* provisions (C.211), the *cash method of income reporting* for fishermen (C.212), and *sales tax exemptions* (C.301). Certain fishing vessels are also eligible for an *accelerated capital cost allowance* (C.102).

FORESTRY AND FOREST PRODUCTS

If you are in the forestry and forest products industry, the federal government assists you through:

—*Industry Development Support*, including federal-provincial development agreements, incentive programs, information, research, and technical assistance.

Industry Development Support

With a series of federal-provincial *Forestry Subsidiary Agreements* involving some $40 millions in annual federal expenditures, the government assists the forestry industry through reforestation, silviculture, construction of access roads, and timber salvage. In addition, the federai government has announced its commitment to increase this effort, and provide federal-provincial shared-cost grants to modernize pulp and paper plants across the country (A.400 series).

Information and technical assistance are provided to you by the *Canadian Forestry Service* through research and development projects on new and improved growth, protection, management, harvesting and production techniques and equipment (A.504, B.306). The forest industry also benefits from support to institutes including the Forest Products Laboratories, the Forest Engineering Research Institute of Canada, and the Pulp and Paper Research Institute.

Assistance is also provided through programs which encourage the development of forest biomass as a substitute for petroleum: capital cost-sharing under the *Forest Industry Renewable Energy Program* (A.625), *Biomass Energy Loan Guarantees* (A.111), and the *Energy from the Forests Program* of research and development on further uses of forest materials as an alternative energy source (A.624).

The *Co-operative Overseas Market Development Program*, funded jointly by the federal government, the Government of British Columbia, and the B.C. Council of Forest Industries, promotes lumber exports.

SERVICES

Special assistance is available to certain industries in the Services Sector. If you are involved in one of the following, then you may be eligible for support:

—*Tourism*;

—*Book Publishing*;

—*Film Production*; and

—*Commercial Facilities*.

Tourism

The *Canadian Government Office of Tourism* (CGOT), besides providing a multi-million dollar advertising program to attract tourists to Canada, also offers the tourist industry important information services. The Marketing Branch of CGOT can provide you with information on all aspects of the tourism industry in Canada, including transportation, dining services, recreation and resources, accommodation and events and attractions. CGOT provides free publications on the tourism industry, and will display tourist operators' own advertising brochures (minimum 2,000) at all CGOT offices upon request (B.112).

Through the Department of Regional Economic Expansion, federal-provincial *Development Agreements* have been established in British Columbia, Saskatchewan, Manitoba, New Brunswick, Nova Scotia and Newfoundland to encourage small tourism operations to expand facilities (A.400 series). In addition, the federal government provides funding for developing *wharf and marina* facilities (A.817-818), as well as providing *small craft harbours* (A.816).

Film Production

Loans and investment support are available from the *Canadian Film Development Corporation* (A.808); technical advice and information are provided by the *National Film Board* (B.514); and support is available to promote Canadian films in *film festivals* (A.809-810).

Book Publishing

Private firms may be subsidized for non-recurring pre-publication costs and book promotions through the *Book Publishing Development Program* (A.801). The *Canada Council* also provides assistance with publication and translation of books in addition to its other activities (A.803.)

Commercial Facilities

If you are considering establishing a commercial facility with capital costs of over $100,000 in a slow-growth area, and are having difficulty in obtaining financing, you may be able to obtain a loan guarantee through the *Regional Development Incentives Program* (A.401).

CONSTRUCTION

If you are a builder then the following federal assistance is available to you:

—*Financing Assistance*;

—*Industry Development Support*; and

—*Tax Measures*.

Financing Assistance

Under the *National Housing Act* (NHA), financing for new house construction is available to building firms. Generally loans are made by approved lending institutions and insured by the Canada Mortgage and Housing Corporation (CMHC). If financing is not available from approved lenders because of a lack of mortgage funds, CMHC may make direct loans (A.112). The production of rental and ownership housing is also encouraged by Graduated Payment Mortgage (GPM) loans (A.115) which are available to developers, builders and new home buyers. Compared to standard mortgages, the GPM results in lower monthly payments in the early years of a mortgage repayment.

Industry Development Support

In addition to the *National Building Code* (B.203), which establishes construction standards, the government assists and encourages effective building design in two ways. Energy efficient designs are promoted through *Building Design Energy Systems Analysis* courses (A.804), and through the new *Low Energy Building Design Awards* (A.509). The government also makes available to architects and others a *Computer-Assisted Design Service* (A.501). Productivity improvements are encouraged by an extensive information service provided by the Department of Industry, Trade and Commerce on the application of new techniques, processes and innovations. CMHC supports research and development on all aspects of the housebuilding industry (B.208).

The construction and construction-related industries also receive considerable direct and indirect support through other federal housing programs such as the *Residential Rehabilitation Assistance Program* (A.114) and the *Home Insulation Assistance Programs* (A.811).

Tax Measures

Many types of building materials are subject to a *reduced federal sales tax* rate of 5% (C.302). In addition, there is no federal *sales tax* on most construction equipment (C.301).

Chapter 11:

REGIONAL DEVELOPMENT ASSISTANCE

Previous sections have described programs and services which will benefit you no matter where your business is located. In addition, special programs of assistance have been designed for firms locating in Canada's slow-growth regions. This chapter discusses three kinds of special regional aid available to you:

—*Direct Incentives for Investment and Employment*

Providing businesses in "designated regions" with grants and loan guarantees through the Regional Development Incentives Program, and lowering your taxes through investment tax credits and employment tax credits.

—*Province-Specific Programs*

Providing you with a range of assistance measures in selected sectors within each province, usually through federal-provincial subsidiary agreements.

—*Incentive Programs in the Territories*

Providing loans, loan guarantees and grants, and providing special funds for businesses which aid native peoples.

DIRECT INCENTIVES FOR INVESTMENT AND EMPLOYMENT

Regional Development Incentives Program

Direct regional incentives are available to you if you are in a "designated region". These are slow-growth areas where special assistance is available, and presently include: the Atlantic provinces; most of Quebec, except for the Hull-West Lachute corridor; Northern Ontario, including the district of Parry Sound and most of Nipissing; Manitoba; Saskatchewan; Northern Alberta (60 miles north of Edmonton); Northern British Columbia (60 miles north of Kamloops); and the Yukon and Northwest Territories.

Grants and loan guarantees are provided through the *Regional Development Incentives Program* (RDIP) to encourage entrepreneurs to locate in the designated regions, or for industries established there to expand or modernize (A.401). Most manufacturing and processing industries are eligible for grants and loan guarantees, while commercial facilities may qualify for loan guarantees only. The major exceptions are initial processing operations such as petroleum refining and certain parts of the pulp and paper industry, mining, and the growing, harvesting or extracting of natural products. The processing of natural products in operations such as sawmills, fish processing plants or food processing plants is eligible.

The main legislative ceilings on *incentive grants* are 20% of approved capital cost for plant modernization and/or volume expansion; and 25% of approved capital cost plus $5,000 per direct job created, for new plants or new product expansions.

Loan guarantees may be authorized for most manufacturing and processing industries and for new commercial projects including business offices, warehousing and freight-handling facilities, shopping centres, convention facilities, hotel and motel accommodations, recreational facilities and research facilities. The minimum total capital cost for consideration for a loan guarantee is $100,000.

Development incentives are also available for selected industries in the *Montreal Special Area* (A.412), which includes Metropolitan Montreal and its region.

Tax Credits

Credits against federal income tax are available for new investment and employment creation. The *Investment Tax Credit* (C.101) permits a deduction when you purchase certain assets to be used in manufacturing or processing, farming, fishing, logging, grain storage or the production of minerals, with extra credits applying for research and development. While investment tax credits are available throughout Canada, higher credits are available in the designated regions (with the highest rates applying in the Atlantic provinces and the Gaspé).

You can obtain a tax credit through the *Employment Tax Credit Program* (C.106) by hiring staff in addition to your normal requirements. Full-time jobs lasting at least three months may qualify for a credit that covers up to 40 hours a week for up to 12 months. Under this program, your tax credit is $2.00/hour for the Atlantic and Gaspé region; $1.75/hour for other designated regions; and $1.50/hour elsewhere.

PROVINCE-SPECIFIC PROGRAMS

Federal-Provincial General Development Agreements

Regardless of the province in which your business is located, you may benefit from the Department of Regional Economic Expansion's programs set up under the *General Development Agreements* (A.402-410). These agreements establish a framework for federal-provincial cooperation, and are implemented through subsidiary agreements which cover specific activities. (An exception is Prince Edward Island (A.411), which is covered by a Comprehensive Development Plan.) Some of these cost-sharing agreements provide for public infrastructure support, while others have established business support programs which most commonly cover three sectors:

—*Industry*

Assistance is provided for the establishment, expansion or modernization of small firms involved in manufacturing, processing, or maintenance and repair related to the manufacturing sector. Forgiveable loans up to $30,000 may be granted under these programs.

—*Tourism or Service Sector*

Assistance is provided for new tourist accommodation and related facilities, and for the expansion or modernization of existing facilities. Assistance is in the form of loans, forgiveable loans, interest subsidization, or incentive grants. Grants and forgiveable loans are also available for service sector assistance in some areas.

—*Agriculture/Rural Development*

Financial assistance is provided for the development of agricultural, processing, and manufacturing facilities or services which will help the economy of rural areas.

The distribution of these types of development agreements which provide direct support to business is shown in the table below. The numbers are references to Annex A (A.400 series) where more detail is provided on these and other agreements currently in effect.

	Industrial	Tourism/ Services	Agriculture/ Rural Development
Newfoundland		A.402	A.402
Prince Edward Island	A.411	A.411	
Nova Scotia		A.403	
New Brunswick	A.404	A.404	
Manitoba	A.407	A.407	
Saskatchewan		A.408	
Alberta			A.409
British Columbia	A.410	A.410	A.410

Other Regional Development Programs

Depending on your line of business and location, you might also qualify for assistance under other regional development programs. The *Prairie Farm Rehabilitation Administration* (PFRA) conducts ongoing projects to develop and promote improved systems of farm practice, tree culture, water supply (including farm wells) and land utilization in the low precipitation areas of Manitoba, Saskatchewan and Alberta (A.613).

Special Agricultural and Rural Development (Special ARDA) Agreements with Manitoba, Saskatchewan, British Columbia, the Yukon and the Northwest Territories provide for specific measures to ensure that rural residents, particularly those of Indian or Inuit ancestry, are able to benefit from rural development programs. Assistance normally takes the form of cash grants to the individual, group or community starting a project, and may also include funds for training and other services. Special ARDA assistance may be granted to projects related to primary production, processing, manufacturing, services, and social development projects (A.413).

The viability of small and medium-sized businesses in Newfoundland and Labrador is being improved through the *Newfoundland and Labrador Development Corporation* (A.415), financed by the federal and provincial governments. Its activities include loan financing for the establishment, expansion or modernization of the operations of clients, equity financing, management advisory services, and other related assistance.

In Cape Breton, the federal government operates the *Cape Breton Development Corporation* (DEVCO) to assist the development of industry on Cape Breton Island, to provide employment outside the coal-producing industry, and to contribute to the rehabilitation and modernization of mines in the Sydney coal field. Any enterprise that can produce permanent employment and earnings may be eligible for assistance (A.414).

Finally, companies in the Atlantic Region may consult the *Physical Distribution Advisory Service* (B.106), which assists shippers in the Atlantic Region by providing information relating to freight transportation, warehousing, inventory control, material handling, customer service, market forecasting, plant and warehouse site selection, delivery service, order processing and protective packaging.

INCENTIVE PROGRAMS IN THE TERRITORIES

In Northern Canada, a variety of federal programs can help you. Separate *Small Business Loan Funds* (A.103-104) in the Yukon Territory and Northwest Territories provide financing, in the form of term loans, for business enterprises where the required credit or other financial assistance is not available from other sources on reasonable terms and conditions. The Northwest Territories' Department of Economic Development and Tourism administers a number of financial assistance programs (A.113) directed towards business, with special emphasis given to businesses owned and/or operated by the Territories' original peoples:

—*Fisherman's Loan Fund*: Guaranteed bank loans to assist commercial fishermen on Great Slave Lake.

—*Tourist Accommodation Grants*: Capital grants, management assistance and training grants to develop and operate tourist accommodation.

—*Assistance to Industry*: Interim financing, seed capital, and funds to complement development loans provided to resident businesses.

Roadbuilding assistance is provided through the *Northern Resource Roads Program* (A.813). This program is a cost-sharing arrangement for the construction of initial or permanent access roads in the Yukon and Northwest Territories. Any industry which will add to the growth and development of the Territories may be eligible for road-building assistance.

For qualified and licensed prospectors in the north, the *Prospectors' Assistance Program* (A.626) provides grants to encourage the search for minerals in the Yukon and Northwest Territories. Prospectors and commercial enterprises are also well served by the *Exploration and Mining Services* (B.309) of the Department of Indian Affairs and Northern Development, providing geological information and advisory services for the mineral industry.

Chapter 12:

ASSISTANCE TO SMALL BUSINESS

Regardless of the size of your business, the federal government provides an extensive range of programs and services of support, as previous sections describe. However, the government appreciates that if your business is small or medium-sized, you may require further help. In recognition of the vital importance of the Canadian small business sector, several measures have been developed which apply partly or wholly to small and medium-sized business. If you are like the majority of Canadian business people, these could quite possibly apply to your business too.

Before turning to specific measures, there are two initiatives for small business you should know about. The first, and one of the most important government initiatives to help you, results from the appointment in 1976 of the *Minister of State for Small Business*, whose function is to promote the cause of small business within the federal government. A comprehensive strategy for small business was announced in September 1977. This strategy is described in a booklet entitled "Small Business in Canada: Perspectives", available on request from:

Small Business Secretariat,
Department of Industry, Trade and Commerce,
235 Queen Street,
Ottawa, Ontario
K1A 0H5

The Secretariat is also available to help resolve problems encountered by small business managers and owners.

There is another address which you should know: the *Office for the Reduction of Paperburden* (B.510). As its name implies, this office serves as a focal point for cutting the amount of paperwork imposed on small and medium-sized businesses. Existing documents are being simplified, and government departments are being encouraged to reduce "red tape". In addition, all new legislation will be examined to keep to a minimum the paperwork it would require of business. This office is there to help you;

therefore, if you have concerns about government paperwork you should contact:

Office for the Reduction of Paperburden,
240 Sparks Street,
Ottawa, Ontario
KIA 0H5

Federal assistance to small business is highly diverse, reflecting the range of needs and decisions facing individual businesses, and includes the following:

—*Financing and Related Assistance*

Providing assistance with your financing problems through loans, loan guarantees, forgiveable loans, and grants.

—*Taxation Relief*

Directly aiding small business through numerous provisions in the tax system (income tax, customs, sales and excise taxes).

—*Manpower Assistance*

Helping you attract and keep the kind of manpower your firm needs to prosper.

—*Management Improvement and Consultation*

Providing you with assistance in the form of experienced counsel and advice on how to run your business better.

A final section sums up various other forms of assistance, including government procurement, R&D and product design.

FINANCING AND RELATED ASSISTANCE

One of the constant problems of small business, especially in the start-up and expansion phases, is obtaining adequate financing at reasonable interest rates. Chapter 5 deals with business financing, so this section just highlights the forms of financing assistance available for your small business.

Loans are often difficult to secure, especially if your collateral or initial equity is low. To help you, the federal government under the *Small Business Loans Program* (A.102) guarantees loans which you negotiate with commercial banks and other private-sector institutions for start-ups and expansion. With this guarantee, lenders are encouraged to make funds available at an interest rate of prime-plus-one to small businesses that they might otherwise consider too risky. These loans can be for equipment, premises or land. If farming or fishing is your business, the *Farm Improvement Loans* (A.201) and *Fisheries Improvement Loans* (A.206) programs also serve to provide loan guarantees.

A popular source of small business financing assistance is the *Federal Business Development Bank* (A.101). This extends financial assistance to new or existing businesses, with a focus on those of small or medium size, when they cannot find other sources of financing under reasonable terms and conditions. Financing is available by means of loans, loan guarantees, equity financing, or any combination of these methods depending on the needs of the business.

Financial and other assistance is also available through the *Enterprise Development Program* (A.302), which helps smaller and medium-sized companies become more viable and internationally competitive. The program is designed to help eligible firms undertake relatively high risk innovative or adjustment projects that can be expected to yield attractive rates of return on the total investment.

For businesses which are run by or primarily for the benefit of Eskimos and Indians, there are two similar programs, the *Indian Economic Development Fund* (A.105) and the *Eskimo Loan Fund* (A.106). Similarly, *Loan Funds* in the Yukon Territories (A.103) and Northwest Territories (A.104) are aimed at providing loans to small enterprises in the North. Small and medium-sized enterprises on Cape Breton Island and in Newfoundland and Labrador can receive assistance from the federal *Cape Breton Development Corporation* (A.414), and the *Newfoundland and Labrador Development Corporation* (A.415), respectively.

Funds for small business are also available from the programs set up under federal-provincial regional development subsidiary agreements, as discussed in Chapter 11: Regional Development Assistance. A number of provinces have established *industrial assistance programs* through these agreements. Generally, they provide forgiveable loans for the modernization, expansion or establishment of small manufacturing and processing firms. They currently exist in British Columbia (A.410), Manitoba (A.407), and New Brunswick (A.404). Six provinces also have *tourism development programs*, which may benefit small enterprises in this line of business (A.400 series).

TAXATION RELIEF

General tax measures that could help you are described in Annex C. However, if you operate a small business, you should be aware of particular measures which have been introduced to help small firms. Many of these work through the income tax system, while others provide relief from tariffs and sales and excise tax payments.

Income Tax Measures

The most general is the *small business deduction* (C.105), which reduces the federal tax rate on eligible amounts of active business income to 15% (from the general rate of 36%) for Canadian-controlled private corporations. Its purpose is to provide additional funds for small business expansion. There is a further *tax reduction on manufacturing and processing profits* (C.103). Firms in this sector which qualify for the small business deduction pay federal tax at a rate of 10%, compared to a manufacturing/processing profits tax rate of 30% for large firms.

If you are investing, the *Investment Tax Credit* (C.101) permits you to deduct from your taxes a credit related to expenditures on certain depreciable property. The November 16, 1978 Budget proposed to increase the basic investment credit and to extend the qualifying period indefinitely. It also proposed a new credit of 25% for research by Canadian-controlled private corporations which qualify for the small business deduction.

Several other measures may particularly benefit the small business. *Employee stock options* (C.205) can compensate key employees without tying-up working capital. For the family business corporation, an *intergenerational transfer of shares* (C.209) can be made without paying capital gains tax immediately (within limits). Finally, there are certain measures which apply to *family farms* (C.210) and to *farming* and *fishing* operations more generally (C.211-212).

Customs, Sales and Excise Tax Measures

Special *relief from federal sales tax* (C.301) is provided to small-scale manufacturers and producers with less than $50,000 of annual sales of taxable goods. In addition, a *reduced paperwork* requirement for small business is now in effect due to a new flexibility in the frequency of filing federal sales and excise tax returns. If you qualify, you will now file returns semi-annually or quarterly, rather than monthly. Approximately one-half of Canada's small manufacturing businesses are eligible to benefit from this.

The federal government will also permit small manufacturers to *purchase or import production machinery* they use to manufacture their goods, without payment of tax or duty (C.301).

MANPOWER ASSISTANCE

The Canada Employment and Immigration Commission provides a wide range of services designed to assist businesses in the recruitment and upgrading of staff and many of these are useful to small firms—for example, a large percentage of the participants in the *Canada Manpower Industrial Training Program* (A.702) are businesses of fewer than 15 employees. One program of particular benefit to small business is the *Small Business Intern Program* (A.706), which provides wage subsidies to create jobs for recent graduates of Canadian universities and community colleges. And the *Employment Tax Credit* (C.106) provides a tax credit of up to $2.00 per hour for 12 months to firms who hire additional workers beyond their normal requirements.

MANAGEMENT IMPROVEMENT AND CONSULTATION

In addition to the Small Business Secretariat, a major source of information and assistance for managers of small business is the *Federal Business Development Bank* (FBDB). Besides offering loans and other forms of financing assistance, FBDB provides three other services:

—The *Small Business Information Service* (B.410) is both an enquiry and referral service for government and other assistance programs. Callers can obtain up-to-date information on these programs, and are referred to appropriate representatives of the programs. FBDB also holds information sessions to which business persons are invited to learn about the various assistance programs, and publishes pamphlets on business management, such as the quarterly news bulletin "Small Business News".

—Several forms of *Management Training* for small business are provided by FBDB, including courses, seminars and other meetings for the promotion of good management practices. The most popular are one-day seminars held in smaller centres across the country, covering subjects such as taxation, cash flow, marketing, cost controls, and bookkeeping (B.408).

—The *Counselling Assistance to Small Enterprise* (CASE) program is a management counselling service with retired businessmen acting as counsellors to assist owners and managers of business enterprises, particularly those of smaller size, to improve their methods of doing business. There is only a nominal daily charge for each counsellor assigned (B.406).

Assistance with product design is provided through the programs of *Design Canada* (A.805). These programs, aimed primarily at the small and medium-sized business, encourage better Canadian design and product development through financial incentives, management training, technical advisory assistance, information seminars, and encouragement of the design professions. These can be of particular benefit if your business is too small to hire staff for this purpose.

The government is considering an expansion of its support for the establishment of local *Business Councils* (A.802). Started as a pilot project in

Hamilton-Wentworth, Business Councils are composed of volunteers from large companies in the area who lend their expertise to small and medium-sized businesses, particularly on aspects of productivity improvement.

OTHER ACTIVITIES

Besides the measures mentioned above, which you can access directly, the federal government has taken other important initiatives of interest to small business:

—*Small Business and Government Procurement*

To encourage even more sub-contracting to small firms by large companies receiving federal contracts, the Department of Supply and Services has asked major suppliers to appoint a co-ordinating officer for all sub-contracts to small businesses. Companies bidding on government contracts will be requested to include in their tenders a plan to sub-contract to small businesses. To help further, the Comptroller-General will examine methods to speed up payment on government contracts (B.111).

—*Business Opportunities Sourcing System (BOSS)*

A domestic sourcing system is being established, as a readily accessible computer-based product information bank which will permit domestic and foreign buyers to identify Canadian sources of supply. This will particularly assist small and medium-sized businesses to market their products. The project is intended to be jointly funded and administered by the federal and provincial governments.

—*Research Institutes*

If you are unable to fund your own research and development facilities, you may contract with various research institutes which have been established with federal seed money. Currently, there are a number of industrial research institutes, centres for advanced technology, and industrial research associations (B.202, D.5-8). Salary support for research undertaken by research organizations for small companies is available from the *Mini-Industrial Research Assistance Program* (Mini-IRAP) (A.507) and the extended *Scientific and Technical Employment Program* (STEPEX) (A.516).

subsidiary
agreement

Government of Canada
Regional Economic Expansion

Gouvernement du Canada
Expansion Économique Régionale

CANADA/NEW BRUNSWICK
AGRICULTURAL RESOURCES DEVELOPMENT

MARCH 22, 1978

CANADA - NEW BRUNSWICK
SUBSIDIARY AGREEMENT
DEVELOPMENT OF AGRICULTURAL RESOURCES

THIS AGREEMENT made this 22nd day of March, 1978

BETWEEN THE GOVERNMENT OF CANADA (hereinafter referred to as "Canada"), represented herein by the Minister of Regional Economic Expansion,

OF THE FIRST PART,

AND THE GOVERNMENT OF THE PROVINCE OF NEW BRUNSWICK (hereinafter referred to as "the Province"), represented herein by the Premier of New Brunswick,

OF THE SECOND PART.

WHEREAS Canada and the Province signed a General Development Agreement dated April 23, 1974, (hereinafter referred to as "the GDA"), to achieve the objectives stated in section 3 thereof;

AND WHEREAS in pursuit of these objectives, Canada and the Province have agreed to seek to achieve a coordinated application of relevant federal and provincial policies and programs through the process of identifying development opportunities and assisting in their realization through the coordinated and concentrated application of relevant federal and provincial programs, including the provision of specialized measures required for such realization;

AND WHEREAS Canada and the Province have agreed that greater economic benefits may be obtained from the agricultural sector within the Province, by a process of stimulation of planned development activities on the farm and off the farm in the context of planned agricultural commodity goals.

AND WHEREAS the Minister of Agriculture of Canada will participate in achieving these goals.

AND WHEREAS the Governor in Council by Order in Council P.C. 1978-823 of the 21st day of March, 1978, has authorized the Minister of Regional Economic Expansion to execute this Agreement on behalf of Canada;

AND WHEREAS the Lieutenant Governor in Council by Order in Council No. 78-62 of the 18th day of January, 1978, has authorized the Premier of New Brunswick to execute this Agreement on behalf of the Province;

NOW THEREFORE the parties hereto mutually agree as follows:

DEFINITIONS

1. In this Agreement:

   (a) "Capital project" means any specific project as determined by the Management Committee, in which construction or activities related to construction are involved and shall include all on farm activities in the Agricultural Resource Development Program;

   (b) "eligible cost" means those costs defined in section 5.

(c) "Federal Minister" means the Minister of Regional Economic Expansion of Canada and includes anyone authorized to act on his behalf;

(d) "Federal Ministers" means the Minister of Regional Economic Expansion of Canada and the Minister of Agriculture of Canada, and includes anyone authorized to act on their behalf;

(e) "fiscal year" means the period commencing on April 1 of any year and terminating on March 31 of the immediately following year;

(f) "initiative" means the subject matter of this Agreement and includes any program, project or other activity designed to implement the objectives of the GDA;

(g) "Management Committee" means the Committee referred to in section 8;

(h) "Ministers" means the Federal Minister and the Provincial Minister;

(i) "program" means a series of specific, related, individual activities;

(j) "project" means a specific activity forming a self-contained unit within a program; and

(k) "Provincial Minister" means the Premier of New Brunswick and includes anyone authorized to act on his behalf.

OBJECTIVE, PURPOSE AND SUBJECT MATTER

2. (1) Pursuant to section 3 of the GDA, the general objective of this Agreement is to enable Canada and the Province to jointly participate in initiatives directed towards the attainment of maximum economic and socioeconomic benefits from the agricultural resources of the Province of New Brunswick, and particularly to supplement and reinforce federal and provincial government policies and programs relating to the development of or support of all aspects of the agricultural sector. Specifically, the objective is to maximize the contribution of agriculture and related sectors to provincial output, earned income and employment.

(2) Pursuant to the objective stated in subsection (1) and subject to the terms and conditions of this Agreement, contributions may be made for the purposes of:

(a) increasing the volume and efficiency of production;

(b) expanding the range of processing activities; and

(c) improving the marketing of commodities for which New Brunswick can develop a competitive advantage in the domestic and export markets.

These objectives will be achieved through programs aimed at developing human resources, improving farm technology, land improvement and the provision of on-farm as well as off-farm infrastructure.

(3) Schedule "A" attached to and forming part of this Agreement contains the programs identified for implementation.

(4) Schedule "B" contains background, strategy and objectives for the programs.

3. (1) The Province shall complete and take over, or arrange for the completion and take over, of each off-farm capital project undertaken under this Agreement, and shall accept full responsibility for ensuring its operation, maintenance and repair, except in cases where other federal-provincial arrangements may apply.

(2) The Province shall arrange for the take-over and acquisition of all lands and interests in lands that are required for program implementation.

(3) It is understood and agreed that where a project under this Agreement, be it capital or non-capital, is to be undertaken by another institution, person or agency, such arrangements as are necessary with respect to such undertakings shall be the responsibility of the Province.

4. No program or project shall be approved after the expiry date of this Agreement and unless the Federal Minister otherwise agrees, no claim made in respect of any program or project or parts thereof under this Agreement shall be paid unless it is received by Canada within one year following the said expiry date.

5. (1) Subject to subsection (3), the eligible costs of capital projects to be financed or shared under this Agreement in respect of the capital projects or portions thereof listed in Schedule "A" are:

(a) all direct costs, including those relating to public information, that in the opinion of the Management Committee have been reasonably and properly incurred by the Province for the implementation of the capital projects, but excluding administrative, survey, engineering and architecture costs; and

(b) ten per cent (10%) of the costs pursuant to paragraph (a) as an allowance towards the exclusions specified therein.

(2) Subject to subsection (3), the eligible costs of non-capital projects to be financed or shared under this Agreement in respect of the projects or portions thereof listed in Schedule "A" are:

(a) all costs reasonably and properly incurred by the Province under all contracts entered into in accordance with this Agreement by the Province with any person, corporation or agency for the acquisition of equipment or the performance of work or services for the execution of the project; and

(b) the gross salaries, employer's share of contributions for Canada Pension Plan and Unemployment Insurance, and reasonable travel and removal expenses in accordance with applicable provincial regulations of those personnel provided for in Schedule "B" to the agreement; provided that such costs, as determined by the Management Committee, are incremental to the Province and are in addition to such staff, services and facilities as are normally available or already in existence within the Province, it being expressly understood and agreed that costs for accommodation in provincially-owned buildings and costs for regular provincial telephone and other utility systems and other services shall be excluded, except as otherwise agreed by the Management Committee.

(3) The costs to be shared by Canada do not include any costs relating to the acquisition of lands or interests in lands, or costs arising from conditions of acquisition, except where otherwise agreed by the Management Committee.

6. Notwithstanding anything in this Agreement, the total amount payable by Canada under this Agreement with respect to the programs listed in Schedule "A" shall not exceed eighty per cent (80%) of the total eligible costs up to an amount of $27,698,000.

7. (1) Unless otherwise agreed by the Ministers, the eligible costs of each program shall be limited to the estimated total costs specified in Schedule "A".

(2) If, at any stage of a program, it appears to the Province that the costs thereof will exceed the estimated costs specified in Schedule "A", the Province shall promptly so inform the Management Committee and state the reasons for such increase.

(3) Upon being informed, the Management Committee shall consider the circumstances which have contributed to the increase in the estimated costs and shall prepare and present a report and recommendations to the Ministers in respect of the action proposed to be taken if adjustments in program costs are required

8 (1) Canada and the Province shall through the Provincial Minister and Federal Ministers appoint a Management Committee consisting of an equal number of representatives of Canada and the Province

(2) The Management Committee shall be responsible for the overall management of this Agreement and, in particular, for the following

(a) approval of all programs and projects necessary for the implementation of this Agreement,

(b) submission for the approval of the Ministers annually, and no later than September 1, of the projected budget required for the subsequent fiscal year

(c) coordination of all cost-shared programs and projects under this Agreement,

(d) modifications necessary in the course of the fiscal year within the annual budget, following its approval by Canada and the Province;

(e) ensuring that an annual review is made of progress achieved towards attainment of the objectives of the agreement and the commodity goals,

(f) reporting to the Provincial Minister and Federal Ministers its evaluation of the progress of this Agreement and its recommendations with respect to the progress of implementation;

(g) establishing at its discretion, in order to facilitate implementation, advisory, coordinating or steering committees consisting of representatives of the departments and agencies of Canada and the Province involved in the implementation of programs and projects under this Agreement;

(h) applying the procedures specified in section 11;

(i) recommending to the Provincial Minister and Federal Ministers amendments to be made to this Agreement;

(j) performing any other functions that may be assigned to it by the parties hereto; and

(k) providing to the officials designated under subsection 9.2 of the GDA such information and advice as they may determine to be necessary for the performance of the functions assigned to them under the GDA by the Ministers designated therein.

(3) (a) Except as otherwise specified in this Agreement or agreed by the Management Committee, the Province shall be responsible for operational program and project development and, under the overall supervision of the Management Committee, for implementing all cost-shared programs under this Agreement, and shall also ensure the provision of the staff and administrative machinery for the implementation of programs and projects under this Agreement assigned to the Province.

(b) The Province, through its representation on the Management Committee, shall be responsible for liaison and program coordination between the agencies of the Province administering the programs included in this Agreement or whose activities affect the implementation of this Agreement.

(4) The Department of Regional Economic Expansion, through its representation on the Management Committee, shall be responsible for liaison and program coordination between the agencies of Canada whose activities affect the implementation of this Agreement.

PAYMENT PROCEDURES

9 Subject to section 10, payments by Canada shall be made promptly to the Province on the basis of provincially audited progress claims setting out the eligible costs incurred and paid for eligible programs and projects, and submitted in a form and verified in a manner satisfactory to the Federal Minister.

10 (1) In order to assist with the interim financing of programs and projects, Canada may, if the Province so requests, make interim payments to the Province of one hundred per cent (100%) of Canada's share of claims submitted, based on estimates of costs actually incurred, certified by a senior officer of the Province.

(2) The Province shall account for each interim payment by submitting to Canada, within the quarter following such payment by Canada, a detailed statement of the actual costs incurred, and paid, verified in a manner satisfactory to the Federal Minister. Any discrepancy between the amounts paid by Canada by way of interim payments and the amounts actually paid by the Province shall be promptly adjusted between Canada and the Province.

(3) Payment of claims under sections 9 and 10 shall be augmented by ten per cent (10%) for capital projects as provided for in paragraph 5 (1) (b).

IMPLEMENTATION PROCEDURES

11. The financing by Canada of the programs listed in Schedule "A" or any projects within these programs is conditional upon the following procedures being observed in the implementation of each of the programs and projects:

A — On-farm Capital Projects with contribution exceeding $35,000 and Off-farm Capital Projects with contribution exceeding $20,000.

(1) **Definition**

The Management Committee shall establish a definition of the project for the purpose of identifying the work to be financed.

(2) **Tenders and Contract Awards**

(a) Unless the Management Committee otherwise agrees, all construction, purchase and other contracts shall be reviewed by the Management Committee and shall be let pursuant to tenders invited by public advertisement acknowledging the financial participation of the parties hereto;

(b) opening of all such tenders shall be public and the Management Committee shall be supplied with copies of each advertisement for tender together with notice of the time and place for tender opening, in sufficient time to enable opening, in sufficient time to enable any member of the Management Committee or his representative to be present at all tender openings and to participate in the evaluation of tenders;

(c) all contracts shall be awarded to the responsible and responsive tenderer who submitted the lowest evaluated bid, unless otherwise agreed by the Management Committee; and

(d) all announcements of contract awards shall be made jointly by Canada and the Province.

(3) **Construction and Implementation**

(a) All substantive amendments to contracts shall require the prior approval of the Management Committee;

(b) any member of the Management Committee or his representative shall be permitted to inspect the project at all reasonable times for the purpose of verifying progress claims and obtaining any other information concerning the project which may be required by the Federal Minister or the Provincial Minister; and

(c) the Province shall forward to the Management Committee a report as to the progress of the work, in such detail and at such time as may be required by the Management Committee.

B — Non-capital Projects

(1) **Definition**

The Management Committee shall establish a definition of the project for the purpose of identifying the work to be financed, outlining the work program, method of implementation, types of services to be employed, equipment and materials required and estimates of cost.

(2) **Implementation**

(a) All contracts for professional services in excess of $25,000 shall be awarded and supervised in accordance with procedures to be established by the Management Committee, unless in its opinion it is impractical to do so;

(b) reports produced by consultants or resulting from projects under this Agreement shall become the property of both parties hereto; and

(c) the Province shall forward to the Management Committee a report as to the progress of the work, in such detail and at such time as may be required by the Management Committee.

12. Contracts and purchases made and work done prior to the date of this Agreement in respect of projects listed in Schedule "A" may be accepted as complying with the provisions of this Agreement if they are consistent with the provisions of the GDA, provided they are incurred on or after April 1, 1978, and if they are approved in writing by the Federal Minister on the recommendation of the Management Committee.

Public Information

13. (1) Canada and the Province agree to cooperate in the development and implementation of a program of public information respecting implementation of projects under this Agreement, and further agree to supply, erect and maintain on the direction of the Management Committee:

(a) during the course of construction of capital projects with contributions exceeding $35,000, a project sign or signs specifying that the relevant project is a Canada-New Brunswick Regional Development Project financed by contributions by the Department of Regional Economic Expansion of the Government of Canada (and any other Federal agency, where relevant) and the Government of the Province of New Brunswick or such other wording to the like effect as may be agreed to by the Ministers; and

(b) where relevant upon completion of each project, a permanent sign or plaque to the effect set forth in (a).

(2) Any public announcement of the measures covered by this Agreement, and any official opening ceremony for each project outlined in Schedule "A", shall be arranged jointly by the Ministers.

RECORDS AND AUDIT

14. Each of the parties hereto shall keep detailed and accurate accounts and records of its expenditures in respect of all programs and projects the cost of which is to be shared between them under this Agreement, and shall make such accounts and records available at all reasonable times for inspection and audit by the other party. Any discrepancy between the amounts paid by either party and the amounts actually payable by it, as disclosed by any such audit, shall be adjusted by means of subsequent progress claims.

GENERAL

15. (1) The provision of financing by Canada and the Province for the implementation of programs under this Agreement is subject to the Parliament of Canada and the Province having provided funds for such financing for the fiscal year in which such financing is required.

(2) No member of the House of Commons or of the Legislative Assembly of New Brunswick shall be admitted to any share or part of any contract, agreement, or commission made pursuant to this Agreement, or to any benefit to arise therefrom.

(3) Any dispute between the parties hereto on any question of law or fact arising out of this Agreement shall be submitted to and determined by the Federal Court of Canada pursuant to the Federal Court Act of Canada.

(4) Where one party hereto is responsible for the implementation of a cost-shared program or project it shall indemnify and save harmless the other party, its officers, servants and agents, against all claims and demands of third parties in any way arising out of the implementation of such program or project, except as such claims or demands relate to the act or negligence of any officer, employee or agent of the other party.

(5) This Agreement shall terminate on March 31, 1983.

(6) Subject to the terms and conditions of section 14 of the GDA, this Agreement may be renewed for any further period agreed upon by the parties hereto, but such renewal shall be subject to the approval of the Governor in Council and Lieutenant Governor in Council.

(7) The following conditions relevant to employment and the award of government contracts shall apply in respect of programs and projects carried out under this Agreement:

(a) recruiting of labour shall be conducted through the Canada Manpower Centres unless the Management Committee considers that this service cannot reasonably be provided;

(b) in the employment of persons on a project there shall be no discrimination by reason of race, physical disability, sex, age, marital status, national origin, colour, religion or political affiliation; it being agreed, however, that the foregoing shall not prevent the implementation of special measures designed to benefit native people or disadvantaged groups;

(c) with regard to the applicability of labour standards, the parties agree as follows:

(i) rates of pay shall be those prevailing in the Province for each classification of work, subject to the minimum wage specified in provincial legislation;

(ii) in building construction, the rates of pay for overtime shall be time and one-half the specified prevailing rate of pay after the hours stipulated for purposes of overtime payment in the relevant provincial standards, which shall in no case be more than 48 per week;

(iii) in road and heavy construction, the rates of pay for overtime shall be time and one-half the specified prevailing rate of pay after the hours stipulated for purposes of overtime payment in the relevant provincial standards, which shall in no case be more than 50 per week; and

(iv) labour conditions shall be specified in all tendering documents and shall be posted conspicuously in the work place; it being expressly understood and agreed that to the extent to which there are higher provincial standards applicable to particular occupations or regions, these higher provincial standards shall apply; and

(d) Canadian material and manpower shall be used in respect of all programs and projects to the extent to which it is procurable and consistent with proper economy and the expeditious performance of the initiatives.

16. The application of new federal or provincial programs by Agriculture Canada and the New Brunswick Department of Agriculture and Rural Development shall not be limited by the existence of this Agreement.

17. In recognition of the existence of regional subsidiary agreements with supplemental funding for agriculture, it is agreed that proposed agricultural projects under such regional subsidiary agreements will be reviewed by the appropriate committee of this agreement, to ensure their compatibility with the overall agricultural objectives.

EVALUATION

18. During this Agreement, Canada and the Province shall jointly effect an assessment of the programs listed in Schedule "A" with regard to the stated objectives. Annual progress reports shall be submitted by the Management Committee to the Ministers on or before the annual meeting of the Ministers as prescribed under subsection 9.1 of the GDA. In addition, Canada and the Province shall also jointly effect an evaluation of all the programs with respect to the general economic and socioeconomic development objectives of this Agreement.

AMENDMENTS

19. (1) Substantive changes to this Agreement, and to Schedule "A" thereof, may be effected as agreed from time to time by the Ministers in writing. Each program added to Schedule "A" shall form part of this Agreement as if it had originally been included in this Agreement. It is expressly understood and agreed, however, that any amendment to section 6 shall require the approval of the Governor in Council and Lieutenant Governor in Council.

(2) Subject to subsection (1), the Management Committee may make adjustments during the fiscal year to the programs in Schedule "A" to this Agreement provided, however, that such adjustments do not increase the total amounts of the Schedule nor conflict with the objectives of this Agreement.

IN WITNESS WHEREOF this Agreement has been executed on behalf of Canada by the Minister of Regional Economic Expansion and the Minister of Agriculture, and on behalf of the Province by the Premier of New Brunswick and the Minister of Agriculture and Rural Development.

In the presence of	GOVERNMENT OF CANADA
Witness	Minister of Regional Economic Expansion
Witness	Minister of Agriculture
	GOVERNMENT OF THE PROVINCE OF NEW BRUNSWICK
Witness	Premier of New Brunswick
Witness	Minister of Agriculture and Rural Development

CANADA - NEW BRUNSWICK
AGRICULTURE SUBIDIARY AGREEMENT
1978 - 1983
Schedule "B"

A. Introduction

Schedule "B" of the Agricultural Subsidiary Agreement between Canada and New Brunswick outlines the goals, strategy and programs to be pursued over the five-year period 1978-83, to ensure a comprehensive agricultural sector economic development thrust. The strategy is a further elaboration of that expressed in the Canada-New Brunswick General Development Agreement and also is adapted to meet both the strategy and objectives of the National Food Policy enunciated by the Government of Canada. The programs and commodity sub-strategies reflect the evaluation of the experience gained during the first three-year Canada-New Brunswick Subsidiary Agreement and New Brunswick's two-year Agricultural Resources Study.

In keeping with other parts of the country, but more accelerated than any other Province, New Brunswick's agricultural industry has undergone a radical transformation in the last thirty years. Reduction in the number of farms and in acreage under cultivation has been more pronounced than in other provinces and associated support and dependency industries have reached a critical point. Further deterioration of the production and marketing functions may irreversibly damage the complex support structure on which the industry depends to continue viable existence.

The Canada-New Brunswick General Development Agreement recognized the importance of agriculture to the provincial economy and the existence of opportunities to expand output and income in agriculture and related sectors. The first Canada-New Brunswick Agricultural Development Sub-Agreement signed on February 17, 1975, was the initial phase of a development effort. The primary objective was to reverse the decline in the agricultural economy and bring about a long term strengthening of the sector. A federal-provincial review of the sector had identified commodities for which the Province appeared to enjoy a competitive advantage in New Brunswick markets. Development of these commodity lines would create job opportunities, in both the primary and processing sectors. Also identified were a number of serious gaps in the services and in the structure required to support and encourage the expansion of a viable provincial agricultural industry. Specific areas of concern included: seed production and deficiencies in handling facilities, trained labour supply shortages, inefficient product handling systems, inadequate information for farm management and farm planning services, and declining rural service centers.

The first Subsidiary Agreement was organized into four programs: Planning and Development; Development Opportunities; Entrepreneurial Development and Implementation Support. The essential strategy was to implant a development process, involving all levels of the agricultural sector.

Only limited gains in agricultural production were expected during the initial phase of the development effort. The objective was to maintain and consolidate production in most sectors while aiming for moderate growth in a few sectors. Real gains are expected in the second phase of the development effort, when a strengthened sector should be in position to benefit from a comprehensive development strategy.

In addition to the major elements of the planning process initiated in the first Subsidiary Agreement, the provincially funded Agricultural Resources Study, was initiated by Provincial Cabinet decision on October 8, 1974, with the following general objective: ". . . to initiate a major study of all aspects of the management and utilization of the Province's agricultural resources. The overall objective of the study is to find ways to promote the fullest use of agricultural resources in such a way as to maximize farm income, to strengthen the vitality of the family farm, to encourage new job creation in food processing industries and to increase food production."

To ensure that the second Agricultural Development Agreement could benefit from the recently completed Agricultural Resources Study, the first Agricultural Development Sub-Agreement was extended for one year to March 31, 1978.

B. Summary of Circumstances

When the first Canada-New Brunswick Agricultural Agreement was formulated in 1973, it was evident that the New Brunswick industry had undergone more severe decline than the rest of the nation. Despite the existence of obvious comparative advantages in the production of several commodities, the physical volume of agricultural production had declined significantly since 1971. By contrast, all other Provinces had achieved increases in physical output. As a result of this decline, almost half of the Province's farm jobs were eliminated, while across the country the loss amounted to about 25%.

On the positive side, a significant portion of these changes were the result of a necessary rationalization in the industry. The demise of many small and marginal farms accounted for most of the loss in the number of farms.

Consequently, the core of efficient larger farms had a greater influence on productivity in the industry. However, there is still an evident need for productivity improvement. Over the 1971-1974 period, productivity averaged about 90% of the comparable Canadian performance with smaller farms of less than $15 000 capital stock continuing to have very low productivity.

In contrast to the primary sector, processing of agricultural products had undergone uninterrupted growth since the early 1950's. Value added at the primary and secondary levels of the industry accounted for more than 17% of total commodity production in the Province in 1974.

Backward linkages, or purchases from other sectors by the agricultural industry, are the most intensive of all primary sectors. An estimated 39%[1] of gross farm income is spent on farm materials, equipment, supplies and services. A large number of businesses and many communities are almost totally dependent on economic activities from the agricultural sector.

Among the goods producing industries, the agriculture and related industry sector has historically ranked very high. It is second only to the forestry sector, in terms of its contribution to and impact upon the Provincial economy.

Primary agriculture in New Brunswick in 1976, was carried out on 3 244 units having annual gross sales of agricultural products of $1 200 or more. An additional 1 300 units had gross annual sales of $50 to $1 200. The median age of New Brunswick producers was 51 in 1976 compared to 40 nationally, with over 1 200 (40%) of the present operators of census farms aged 55 or over. In contrast, fewer than 500 operators are under 35 years of age.

Between 1966 and 1976 the land area in farms declined by nearly 45% from 1.8 million acres to .99 million acres and the improved land in production dropped by 34% from 638 000 acres to 425 000 acres. The physical volume of agricultural production over the period 1966-1975 declined from an index figure of 104.0 to 84.7.

There is need to increase the efficiency of production and improve producer returns if viable long-term increases in production are to be achieved. The effort to improve production must include measures designed to upgrade the technical and management skills of the primary producer.

The median age of New Brunswick farmers exceeds the Canadian average. The level of management ability and formal education is low, with 70% of New Brunswick farm operators having less than grade nine education as compared to 58% for Canada as a whole and sufficient skilled labour is not available. The lack of training materials and facilities in the French language has hindered the skill upgrading process of the Acadian farmers.

---

[1] From Input-Output Analyses by the Office of the Economic Advisor, Fredericton, 1974.

In general, marketing services and institutions available to the industry are not competitive with other regions. A continuing marketing effort, designed to identify opportunities offering the greatest potential is necessary if sustained agricultural production increases are to be achieved. The development effort provides for increased marketing, product quality control and market servicing. Opportunities for increased sales of New Brunswick agricultural products exist in provincial, national and export markets, but these opportunities will not be realized without an accelerated program of market identification and product promotion. The objective will be to ensure that marketing interventions are based on sound market intelligence.

An important element of the marketing effort will be the identification and promotion of increased opportunities to process agricultural products in the Province. In several commodity areas, notably blueberries, strawberries, vegetables and industrial milk, the lack of processing facilities constrains the attainment of the sector's full potential.

Another important component of the marketing effort includes interventions designed to provide for the development and strengthening of producer-marketing organizations. For several key commodities, such as potatoes, beef, vegetables and fruits, with the exception of apples, no organized producers-marketing structures exist. Many of the existing commodity organizations remain disarrayed and weak. Steps will be taken to help them become stronger.

The amount of good quality land available for agriculture has continued to decline in recent years. This decline has been the result of a number of factors such as loss of farm land to urban sprawl, absentee ownership, escalating land costs, fragmentation of the land base and loss of land due to soil erosion. In the case of soil erosion, for example, it is estimated that 70% of the Province's potato acreage is in need of some conservation system if it is to be preserved for production. Lack of attention to this serious situation, together with the soil limitations and low productivity of much of the existing land, could mean that there would be insufficient good quality land to meet the production targets by 1983. Conservation measures would include soil erosion control, stream bank protection and flood plain control.

The most important element of the land improvement undertakings will be drainage. Expansion of the presently cultivated land base will include efforts designed to bring good quality idle land back into production and to clear new land in areas of intensive use. Another major constraint to the attainment of the potential in agriculture is the lack of the physical infrastructure necessary for the efficient handling, storage, marketing, and distribution of agricultural commodities. Major investments in this area by both the private and public sectors will be pursued so that the production objectives may be achieved and sustained.

A number of improvements are required in the transportation and distribution system for products moving to both in-province and out-of-province markets. Shortages of equipment and port facilities exist for the transport of many commodities. Potatoes in particular, suffer from high cost of transport relative to competing regions. It is especially important that the advantage of access to Atlantic Ocean ports with relatively cheap transportation to Europe and U.S. markets be maintained and strengthened by improvements to port facilities.

Many elements of the marketing and distribution chain normally provided by the private sector either do not exist or lack competition. There is an inadequate amount of storage to provide for maintenance and product quality and allow a longer market life. An important part of the development strategy, therefore, is to encourage the private sector to overcome these deficiencies.

Attainment of the production targets in agriculture will entail significant increases in capital investment at the primary level. Traditionally, in agriculture, most capital requirements have been met from internal sources. There are indications that an increasingly greater proportion of capital requirements will have to come from external sources.

The planning review, especially the Agricultural Resources Study, has made recommendations for changes in the policies of both private and public lenders. These changes are designed to make loan capital more easily accessible to New Brunswick farmers. The small business enterprises, which typify New Brunswick's farms, have very limited access to equity capital and an integral part of the strategy will be to help those in need overcome this deficiency, providing that grants be closely related to the development strategy being pursued. Efforts must be directed at the achievement of specific commodity production increases, aimed at bringing about viable long-term additions to the capital stock of the industry, supplemental sources of capital from other public and private sources and conditional upon the adoption of a farm management plan.

C. The Development Strategy

The general objective is stated in the first Agricultural Development Sub-Agreement: "to enable Canada and the Province to jointly participate in initiatives directed towards the attainment of maximum economic and socio-economic benefits from the agricultural resources of the Province of New Brunswick, and particularly to reinforce federal and provincial government policies and programs relating to the development or support of all aspects of the agricultural sector."

More specifically, the development strategy is aimed at increasing the agriculture and related sectors' contribution to provincial output, earned income and employment by concentrating efforts on increasing the volume and efficiency of production, expanding the range of processing activities and improving the marketing of commodities for which New Brunswick can develop a competitive advantage in the domestic and export markets.

The potential of the agriculture and related sectors to contribute additionally to provincial outputs has been identified and is based on the attainment, by 1983, of the following commodity targets:

Commodity		**Production 1975**	**Production Targets 1983**
Potatoes		10 820 000 CWT	14 million CWT
Hogs		12 176 000 LBS	20.6 million LBS
Dairy fluid		140 133 000 LBS	175 million LBS
Manufacturing		80 500 000 LBS	114 million LBS
Beef		14 070 000 LBS	18.2 million LBS
Sheep		630 000 LBS	963 000 LBS
Selected vegetables increase of 11 million lbs. valued at $1.5 million			
Fruits	Apples	310 000 BU	700 000 BU (1988)
	Strawberries	1 110 000 QTS	8.5 million QTS
	Blueberries	3 835 000 LBS	7.8 million LBS

These production targets, at which the development effort is aimed, will, in all probability, not completely materialize in every case. However, the targets are regarded as realistic goals given existing production capabilities and current estimates on available markets. Given the attainment of the above targets, the physical volume of agricultural production can be expected to increase by 35% over the 1975 level. As a result of both increased output and gains in the efficiency of production, the annual gain in gross provincial product in primary agriculture is estimated at $18.8 million by 1983, in 1975 dollars. The annual gain in earned income in the primary sector is estimated at $14.1 million. It is further estimated that the production of this increased output will require an additional 900 man-years of labour given the attainment of productivity objectives. Earned income in gross domestic product per employee should increase by twenty-five per cent.

Because of the essential linkage which exists between primary agriculture and other associated industries, the strategy is intended as an integrated, comprehensive package for economic development purposes, touching all levels of the industry. In addition to these potential gains in the primary sector, additional benefits will be realized in the related processing and supply industries. It is estimated that as many as four man-years of employment in the off-farm activities are created for every additional man-year in the primary sector.

This development strategy will apply province-wide, but will remain flexible enough to be consistent with, and appropriate to, New Brunswick's geographic diversity, resources endowment and cultural differences. Development opportunities will therefore be undertaken and constraints to such development removed wherever they exist in the Province.

Through the development strategy, assistance will be directed to those persons or enterprises which show potential to contribute to the objectives of the Agreement and demonstrate the need for such assistance.

The development strategy is designed to essentially implement the major thrusts outlined in the Commodity Sub-Strategies. However, because development circumstances can change rapidly, the strategy must retain sufficient flexibility to respond to presently unforeseen development opportunities which may occur over the life of the agreement. Development circumstances in the sector and program measures will be monitored and evaluated on a continuous basis throughout the life of the Subsidiary Agreement and program and commodity priorities changed accordingly.

In recognition of the desirability to meet specific commodity goals in the agricultural sector through the mechanism of this Agreement and, in recognition of the existence of possible supplemental funding in certain economically depressed regions with significant agricultural potential, every effort will be made to have proposed agricultural projects under regional sub-agreements reviewed by the appropriate working committees of this Agreement, to ensure their compatibility with the overall agricultural objectives.

The constraints impeding the attainment of the potentials in the agricultural sector are presented in the Commodity Sub-Strategies. While each commodity group has its own unique problems, most significant constraints to increased agricultural production are categorized in the following general groupings: Human Resources; Commodity Marketing, Land, Agricultural Facilities both on and off-farm and, Availability of Capital.

The 1983 production targets by commodity are based on presently estimated market opportunities. These estimates will be reviewed annually by the Management Committee and revisions may be made in light of changing economic and supply-demand outlooks.

D. Commodity Sub-Strategies

1. Potatoes

New Brunswick potatoes account for slightly over 20% of Canada's total potato production and can be found on national and international markets in three major product forms: tablestock, seed and processed potato products. This commodity is of primary importance in New Brunswick agriculture, accounting for 34% of total farm cash income during the period 1971-75.

Opportunities

There is an opportunity to significantly increase seed potato exports, not only offshore, but also to the United States, Ontario and Quebec. This would be facilitated by improving the quality of seed produced and ensuring efficient marketing. In order to increase the volume of the New Brunswick crop that is processed, sizeable acreages will have to be developed on the east coast of the Province. There is also an opportunity to increase the value to the producer of the raw product delivered to the processor. No significant growth opportunities appear in the tablestock sector, although steps should be taken to stop the erosion of Quebec and Ontario markets and to regain the New Brunswick market.

Constraints

- The quality of seed, tablestock and processing potatoes is low;
- Aggressive market promotion and after-sales services in seed and tablestock markets are lacking;
- The industry lacks an effective organizational structure;
- There are major deficiencies in transport and handling systems;
- The land area available for potato production is limited and there is a general lack of application of crop rotation technology;
- Land drainage is inadequate and soil erosion problems are common;
- Bacterial and viral diseases are major problems;
- There is insufficient product diversity . . . yellow-flesh as well as white-flesh tuber type;
- There are delays in implementing known technology, particularly with regard to storage.

Objectives — 1983

1. Establish an effective industry organizational structure;
2. Increase the land base to 125 000 "best suited" productive acres in Carleton, Victoria and Madawaska Counties to ensure adequate rotation and obtain annual production of potatoes from 62 000 acres;
3. Increase the share of local tablestock on the New Brunswick retail market from 125 000 to 400 000 CWT;
4. Increase seed exports by 40% to a total of 1.7 million CWT;
5. Evaluate the feasibility of producing and marketing yellow-flesh varieties and establish commercial production of 3 000 acres;
6. Establish the base of a potato industry centred on the east coast of the Province;
7. Increase unit output by 10% to an average of 225 CWT/acre;
8. Achieve a total industry production target of 14 million CWT of marketable potatoes.

Initiatives

Seed

- A designation system will be established to identify seed areas;
- Aggressive and systematic measures to eradicate ring-rot from New Brunswick potato fields;
- The promotion of seed quality improvements;
- The evaluation of the potential of yellow-flesh varieties;
- The establishment of a containerized handling system for seed potatoes;

- The provision of technical and after-sales services;
- The demonstration of seed production potentials on the east coast;
- The delivery of specialist advisory services.

Processing

- The promotion of quality improvement techniques to producers;
- The provision of on-farm demonstrations to upgrade production technology;
- The demonstration of processed-crop potentials on the east coast;
- The effective integration of the entire industry to ensure the supply of quality tablestock[1].

Tablestock

- The institution of an intraprovincial inspection service[2];
- Programs to improve the quality of tablestock;
- The promotion of New Brunswick tablestock and improved merchandizing methods;
- The establishment of an efficient market information system;
- The introduction of palletized handling systems.

General

- The promotion of an effective industry-wide organizational structure;
- The improvement of storage technology on farms;
- The development of livestock feed potentials;
- The provision of assistance for land development.

2. Fruits and Vegetables

The fruit and vegetable industry is a modest sector of the Province's agricultural economy, representing 4% of the total farm cash income in 1976. In general, the industry is considerably underdeveloped and does not supply a significant portion of the domestic demand. Even the tourist trade, which could be accommodated due to the seasonal character of fresh fruit and vegetable production, is quite unexploited. The ready access to major urban markets in the northeastern U.S. seaboard further supports the attractiveness of horticultural development prospects in New Brunswick.

---

[1] High quality tablestock which is currently used for processing could be diverted to tablestock market.

[2] The Province is to engage in negotiation with Agriculture Canada.

Opportunities

Selective opportunities are emphasized, consistent with the markets and the productive capability of the Province. Development potentials are identified with the native lowbush blueberry. Improvements to production efficiency and the introduction of new technology will enable the cultivation of lowbush blueberries in high performance production systems. Again with berry crops there can be significant growth in strawberry production provided that the development occurs in areas which minimize the risk of over-wintering losses. The crop is currently marketed predominantly in the United States. Locally, U-pick operations are increasing in importance. Mechanized harvesting is imminent for both blueberries and strawberries, which suggests that there are substantial opportunities for increasing processed-crop production.

Apples show a limited development potential to satisfy a domestic fresh product requirement and there is opportunity to encourage some on-farm processing for production of ciders as a means of disposing of low quality fruit.

Vegetables and particularly cole crops have been given little attention and consequently, with the exception of the acreage contracted to the major processor, the industry barely exists. There is need to build a sufficient volume to support the establishment of effective marketing mechanisms to satisfy a deficient fresh market trade and to expand as well the commitment to processed production. The immediate opportunity exists with suitably located and adapted soils, particularly along the east coast where there is potential also to develop the extensive peat bogland resource.

Constraints

- The productive efficiency is low and there is a general lack of application of both good production technology and information, on regional adaptation and comparative performance;
- The variability of yields, low volumes and discontinuity of supply are major problems;
- The inadequacy of storage, handling and marketing facilities;
- The entire horticultural industry lacks an effective organizational structure;
- The dispersed nature of production and consequently the inadequacy of services as well as processing and marketing outlets;
- The market information and promotion mechanisms are inadequate.

Objectives — 1983

1. Ensure the establishment of an effective marketing system;
2. Establish 500 additional acres of medium density apple plantings and achieve, by 1983, a marketed volume of 500 000 bushels and a volume of 700 000 bushels when the new trees come into bearing;
3. Evaluate and demonstrate the potential of organic soils for vegetable crops production;
4. Increase lowbush blueberry marketings from wild stands by 2.5 million lbs;
5. Establish 250 bearing acres of cultivated lowbush blueberry production and market 1.5 million lbs. of fruits;
6. Develop 1 000 additional acres of vegetable production centred in southeastern New Brunswick;

7. Establish facilities in southeastern New Brunswick for processing of small fruits, vegetables and potatoes;

8. Increase strawberry acreage by 1 000 bearing acres for fresh, U-pick and processing consumption, and increase yield to an average of 5 000 quarts per acre

Initiatives

Blueberries

- The improvement of production efficiency on 3 000 acres of native stands and 250 acres of cultivated stands;
- The use of innovative demonstrations to communicate new technology;
- The provision of producer training opportunities to increase production skills;
- The establishment of a market development program;
- The application of cultivated lowbush technology;
- The delivery of specialized advice.

Strawberries

- The provision of on-farm development assistance to establish 1 000 new bearing acres in designated areas;
- The promotion of mechanization for the harvest of strawberries;
- The use of innovative demonstrations to communicate new technology;
- The provision of producer training opportunities to upgrade skills;
- The delivery of specialized advice.

Apples

- The provision of on-farm development assistance to establish 500 new acres of orchards;
- The use of innovative demonstrations to communicate modern production technology;
- The provision of producer training opportunities to upgrade skills.

Vegetables

- The provision of on-farm development assistance and the establishment of 1 000 new acres in production by 1983;
- The development of the productive potential of organic soils through Research and Development programs;
- The provision of producer training opportunities to upgrade skills;
- The establishment of a market promotion system;

- The use of innovative demonstrations to communicate technology;
- The delivery of specialized advice.
- The determination of the feasibility of waste heat utilization.

General

- The development of domestic processing capability;
- The development of regional Farmers' Markets;
- The development of effective producer organizations;
- The provision of assistance for central storage and handling facilities;
- The conducting of feasibility studies in the areas of marketing and processing.

3. Livestock and Livestock Feed

The livestock sector collectively dominates the Provincial agricultural economy, accounting for 45% of gross farm receipts in 1976. Many of the service supports and secondary infrastructure which multiply the agricultural impact, relate most closely to the livestock sector.

There has been considerable consolidation within the industry in the post-war period. Production of meat animals now satisfies about 40% of the domestic requirement. Red meat (beef) production is practised primarily by joint employment farmers. The Province is presently meeting its fluid milk need but is deficient in servicing the dairy industry with processing capability.

The livestock feed sector however is particularly under-developed and limits the competitive position of New Brunswick livestock producers. Poor pasture quality, reliance on hay crops and dependence on western feed grain supplies have combined to keep profitability and output at a low level.

Opportunities

Development of a strong and productive livestock feed economy, in concert with livestock operations and rotational cropping for improvement of potato and vegetable lands, is seen as the foundation for a profitable livestock industry. Improved output efficiency is sought for dairy cattle to lessen the dependence on support and subsidy mechanisms. Improvements in feed quality and production efficiency would encourage also some growth in beef, hog and sheep enterprises to the level where local production would not only more nearly satisfy domestic demand but also ensure that there is sufficient volume to sustain the services of the processing and manufacturing structures, so important to the continuing long-term viability of the industry.

Constraints

- The level of production efficiency is low;
- The quality and availability of feed is deficient;
- There are seasonal fluctuations in milk production and inadequate local facilities to process industrial milk;
- The costs of intraprovincial transport services are very high;

- There is a lack of integration of animal production and feed crops production enterprises;
- The marketing systems for red meat production are inadequate.
- The training and technology transfer programs for producers, particularly with meat animals, are deficient.

Objectives

1. Increase hog marketings by an additional 60 000 head per year for a total increased marketing of 9.6 million lbs. of dressed meat per year and improve management capability and production efficiency;
2. Improve the efficiency and viability of beef enterprises through better utilization of quality forage and opportunity feeds; increase beef breeding to 30 000 head with 85% calf weaning percentage. Production overall to be increased by 4 000 000 lbs. dressed meat;
3. Increase the output of dairy cows on farms shipping fluid quality milk to a provincial average of 12 000 lbs. per cow through gains in feeding efficiencies, herd health and genetic quality of dairy herds;
4. Increase fluid milk sales to 175 000 lbs. and effectively utilize 114 000 000 lbs. of milk for industrial products;
5. Improve the overall viability of the sheep industry by increasing the breeding flock by 2 500 ewes and marketable lamb survival to 110% per ewe and increase total marketings by 96 300 lbs.
6. Increase the quality and availability of locally produced grain and forages to enable the livestock objectives to be attained.

Initiatives:

Beef:

- the improvement of specialist, consultative, advisory and testing services;
- the provision of producer training opportunities to upgrade skills;
- the demonstration of efficient beef feeding and management technology, including pilot farmstead feeding operations;
- the provision of assistance to producers for livestock facility improvements.

Swine:

- the improvement of field specialists, technical and herd health services;
- the upgrading of producer skills through training;
- the demonstration of efficient swine farrow-to-finish technology through initiative and pilot farm scale applications;
- the provision of assistance to producers for livestock facility improvements.

Dairy:

- the provision of specialist advisory and performance testing services to increase production efficiency;
- the upgrading of producer skills through training;
- the development of secondary manufacturing facilities;
- the provision of assistance to producers for livestock facility improvements.

Sheep:

- the upgrading of producer skills through training;
- the use of innovative demonstrations to communicate new technology;
- the provision of assistance to producers for livestock facility improvements.

Livestock Feed:

- the provision of assistance for land improvement, namely drainage, levelling, clearing (14 000 acres of forage land; 35 000 acres of small grains);
- the provision of assistance for the installation of on-farm storage and drying facilities;
- the upgrading of producer skills through training;
- the use of innovative demonstrations to effectively transfer technology at the farm level;
- the establishment of soils and crops improvement associations, a Livestock Feed Commission, and appropriate marketing and regulatory systems;
- the provision of implementation staff.

COMMODITY THRUSTS ARRAYED BY PROGRAMS
ASA II (1978-83)

Program	Potatoes	Fruit & Vegetables	Livestock & Feeds	General	Totals
1	475 000	425 000	1 275 000	1 825 000	4 000 000
2	775 000	650 000	850 000	1 855 000	4 130 000
3	3 845 000	175 000	—	2 420 000	6 440 000
4	2 000 000	1 875 000	9 398 000	1 327 000*	14 600 000
5	435 000	760 000	855 000	200 000	2 250 000
6	150 000	325 000	550 000	2 177 500	3 202 500
TOTALS	**7 680 000**	**4 210 000**	**12 928 000**	**9 804 500**	**34 622 500**

*10% allowance for design, engineering and related planning

E. The Programs

The Programs of the Sub-Agreement have been designed to provide the elements of assistance required to achieve the goals established for the agricultural sector generally, and the potato, livestock and feeds, and fruit and vegetable group Sub-Strategies specifically. The programs provide flexibility at the farm gate, so that the individual producers may be assisted in taking advantage of those sub-provincial regional opportunities for which they have some comparative advantage, so that the public and private sectors may, at the same time, be assisted and motivated to take advantage of those opportunities "adding value" and replacing import and exporting commodities, for which New Brunswick has or may achieve some comparative advantage. All programs are supportive of increases in gross and net production (agricultural gross domestic product), earned income (both in total and per employee) and employment.

The three commodity group Sub-Strategies which form part of this schedule will be reviewed annually by the Management Committee and the relative mix of program elements adjusted according to market outlook and commodity and Agreement performances during the preceding year.

1. Human Resource Development

Program Objectives:

(a) To provide for the development, presentation and distribution of commodity production information, and production and farm management seminars required to motivate and help a substantial segment of the primary producers to improve their skills; and,

(b) To provide for improving the performance of producer organizations and public sector services to producers.

The overall objective will be to improve the efficiency of production and producer returns in those products which the commodity group strategies have identified as offering the greatest potential to expand net farm production, (agricultural gross domestic product), earned farm income and employment.

Program Initiatives:

(a) To provide assistance for the development of specialty commodity, land improvement and farm management seminars required to motivate and help primary producers improve their skills;

(b) To provide assistance for the promotion, pre-registration and delivery of seminars and other skill development activities, in cooperation with the Employment and Immigration Commission, for producers, shippers, processors, transporters and such other elements of the producing, storing, grading, transporting, marketing or processing activities that may be required to meet the goals of the commodity group strategies;

(c) To provide assistance for the development, printing and distribution of selected specialty commodity brochures and pamphlets, and farm management practices required to assist primary producers to upgrade their skills;

(d) To provide assistance for the development of courses on the appreciation of the agricultural industry;

(e) To provide assistance for the upgrading of skills of selected provincial employees and employees of producer organizations as required to assist in meeting the production and marketing goals of the commodity group strategies; and,

(f) To provide for the establishment of a Federal-Provincial Task Force to examine and recommend on making French-language training in agriculture more accessible to New Brunswick residents.

Human Resource Development activity is designed to increase net production, earned income and employment by improving the efficiency of agricultural production. Results should be evident in improvements in the accepted measures of production efficiency (such as crop yields) and producer returns, in addition to increases in overall production and earned farm income.

The operation of a significant proportion of the recipients of program activities will be monitored. In this way, results can be evaluated and programs altered if required.

2. Marketing and Industry Development

Program Objective:

To assist in providing the resources necessary to identify, develop and promote commodity markets and to obtain, analyze and distribute commodity market intelligence required to establish activity priorities, to help achieve the production and marketing goals of the commodity strategies and to help organize the establishment of a significant marketing activity in the New Brunswick Department of Agriculture and Rural Development.

Program Initiatives:

(a) To provide assistance for the promotion of New Brunswick agricultural products both inside and outside of the Province, through a planned promotion strategy for agreed key commodities:

(b) To provide assistance for selected studies to determine the feasibility of replacing imported agricultural products with New Brunswick products, or exporting New Brunswick products and of undertaking more "value added" activities in the Province for agricultural products:

(c) To provide assistance for the development of viable producer marketing-purchasing organizations by providing reducing financial incentives for managerial services;

(d) To provide assistance for the identification, acquisition and analysis of intelligence required to identify commodity markets, and priorize associated producing and marketing activities:

(e) To provide for the distribution to producers, producer groups, wholesalers, shippers and processors of agreed commodity market intelligence; and,

(f) To provide consulting assistance for the establishment of merchandising methods and development of a sound marketing organization within the New Brunswic Department of Agriculture and Rural Development.

The marketing and industry development program attempts to accelerate the growth c gross and net production and earned income, (both in total and per farm employee), ar employment through increasing the demand for New Brunswick products in existir markets and identifying new markets. In addition to contributions to the primary objective of the Sub-Agreement, program activities should result in improved market shares ar profitability for New Brunswick products in relevant markets; increased processing or valu added activities for relevant commodities; and, stronger producer-marketing organizatior offering improved returns to members.

3. Agricultural Facilities

Assistance provided here will be supplemental to all existing government programs. particular those of Agriculture Canada.

Program Objective:

To ensure that selected, basic off-farm capital investments, required to meet production and marketing goals of the commodity strategies, are supplied by the private and public sectors.

Program Initiatives:

(a) To provide incentives to the private or, if necessary, the public sector in selected provincial sub-regions to encourage the provision of storage, handling, grading, drying or marketing facilities necessary to the further development of selected agricultural commodities;

(b) To provide incentives to the private sector to encourage the provision of selected physical items related to the more efficient transporting of key agricultural commodities;

(c) To provide for main outlet drainage and water control ditching in selected areas of the Province; and,

(d) To provide for regional provincial service centres.

The agricultural facilities program is designed to be supportive of the net production, income and employment goals of the Sub-Agreement. By alleviating identified deficiencies in off-farm infrastructure, program activities should result in increased production, through improving product quality, making possible new markets, and lowering the costs of moving the product between the farm gate and the consumer. The major benefit from drainage ditching will be improved productivity of the land.

The project approval process will include an appraisal of the expected benefits in terms of increased gross and net production, earned income and employment in relation to project costs.

Major projects, those with total costs in excess of $250 000 proposed under this program, will be the subject of a detailed benefit cost analysis as to their economic efficiency and financial viability.

The regular monitoring of the commodity sub-strategies will provide feedback on the contributions of the agricultural facilities program to Sub-Agreement objectives and suggest the need for new or improved project measures.

4. Agricultural Resource Development

Significant increases in on-farm capital investment will be required if the objectives of this Sub-Agreement are to be attained. In recognition of the need by farm enterprises for equity capital, this program continues and strengthens the investment incentives provided through the Development Opportunities Program of the first Agricultural Development Sub-Agreement and the assistance programs of federal and provincial governments and agencies.

Program Objective:

To provide assistance and financial incentives to primary producers to plan and undertake on-farm investments designed to both increase gross and net farm production, earned income (in total and per employee) and employment.

Program Initiatives:

Financial assistance will be directed to those farmers and potential farmers who are establishing a viable operation or improving or expanding to a more viable level and where there is evidence that the investment would not likely take place without the assistance.

The Farm Development Grants will be flexible and closely related to the overall development strategy for the agricultural sector. Incentive grants will be coordinated with existing governmental financial assistance programs, to ensure that the incentives are supplemental to and do not replace available assistance.

Grants for individual full-time and part-time farmers will be based on the new capital required to expand the operation to a viable level, increase incomes and increase output of agreed products, and will be consistent with an agreed management plan.

Benefits will take the form of increased farm gross and net production, earned farm incom
and employment. In addition, because increases in the efficiency of production will be a
important objective of the program, especially of the land development program, ne
production and earned income per farm employee and other relevant measures of far
productivity can be expected to increase.

All incentive grants will be appraised and approved on the basis of the benefits in terms o
increased gross and net production, earned income and employment in relation to costs
An appeals process will be established. Recipients of grants will be required to subm
reports on the assisted operations, providing base data and updates on an annual basis
These reports will include the information necessary to assess progress towards the abov
objectives. Information will include production, gross production income, wages and salarie
man-hours paid, total operating expenses and such other information as may be specifie

Assistance provided to farmers under this program include amounts for land develop
ment and structures. These will require engineering design services either provided internal
by the department or purchased externally. In recognition of this fact these will be co
sidered as capital projects in the context of the agreement definition and the 10% allowanc
will apply.

5. Transfer of Technology

An accelerated program of technology transfer is required if the needed improvemen
in production efficiency are to be attained. Improvements in production efficiency a
urgently required in order to improve producer returns and assure the long-term viabil
of the industry.

Program Objectives:

To develop and carry out, in co-operation with the private sector, pilot projects to te
and demonstrate to primary producers or processors, new crops and new technolog
for the producing and marketing of agricultural products in conformity with the commod
strategies and in order to increase the efficiency of agricultural production, improve p
ducer returns and encourage greater "value added" activities.

Program Initiatives:

(a) To provide for significant on-farm demonstrations of a semi-commercial nature th
will help primary producers increase their net production and earned income;

(b) To provide for small on-farm demonstrations of new techniques and crops, by
farm management specialists, to encourage primary producers to adopt new practic

(c) To provide for significant demonstrations to primary producers of advanced meth
of shipping, packaging and presenting agricultural products for sale; and,

(d) To provide for demonstrations to processors of advanced methods of preparing agricultural products for the consumer market.

Program measures are primarily directed at improving the efficiency of production in order to increase net production and earned income (both in total and per farm employee).

The operations of a significant proportion of the recipients of program assistance will be monitored in order to determine the extent of improvements brought about in relevant indicators of production efficiency, such as crop yields and the economic objectives outlined above.

6. Implementation, Evaluation and Public Information

Program Objective:

(a) To ensure that the minimum professional services are made available to effectively implement the provisions of this Agreement;

(b) To develop and carry out an agreed program of data collection and analysis for the effective management and evaluation of this Agreement; and,

(c) To ensure that there is public awareness of the programs.

Program Initiatives:

(a) To provide for the collection, storage, manipulation, analysis and presentation of selected program and project performance indicators;

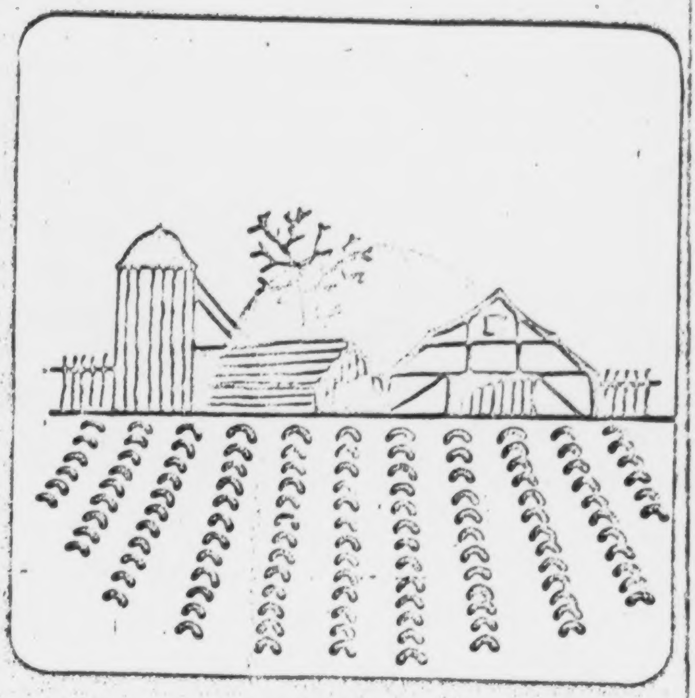
(b) To provide for specialized consulting services required to effectively implement this agreement; and,

(c) To provide for an adequate level of professional and technical staff resources, to ensure that the marketing and farm management advisory services are sufficient to implement this Agreement.

Agricultural Resources
Development Agreement

Farm Development Program

A farm program
to help you plan
for the future



Province of
New Brunswick

Government of
Canada

"This program is implemented by the N.B. Department of Agriculture and Rural Development and is jointly funded by the Department of Regional Economic Expansion, (DREE), Government of Canada, and the N.B. Department of Agriculture and Rural Development, Government of New Brunswick."

A Federal-Provincial Agreement

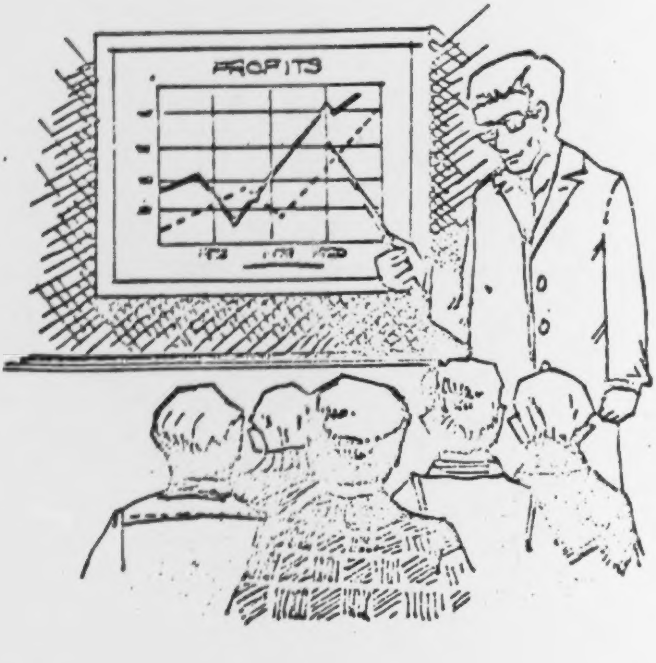
In 1978, the Federal Government and the Province of New Brunswick signed the second Agricultural Resources Development Agreement (A.S.A. II). This five-year agreement comes under the General Development Agreement (GDA). Its objective is to provide a higher standard of living for New Brunswick people in the agricultural industry.

Planning for Profit

The main purpose of the Agricultural Resources Development Agreement is to raise the quantity and quality of farm production over the long term. This means planning, setting sound goals and identifying a course to reach them.

The Farm Development Program helps you to make practical plans to develop your farm over the next five years. Farm management counselling services are provided on request to assist you to plan the development of your farm, to consider the benefits and the costs of alternate courses of action.

Developing your farm will require capital. Perhaps you do not have sufficient money to execute your plan. That is where the Financial Incentive Program comes in: if your Farm Development Plan is approved by the New Brunswick Farm Development Committee, you may qualify for a farm development grant to help you put your plan into effect.



A Program to Assist a Unique Industry

Farm development is one of six programs established to improve the farming industry under A.S.A. II. This program is designed to provide assistance to farmers in planning and implementing activities required to increase gross and net farm production, earned income and employment.

The assistance is provided in two forms:

1. Management Assistance:
   farm management counselling services are provided to assist farmers in planning activities for their farms.
2. Financial Incentives:
   development grants may be awarded to farmers to assist in carrying out farm plans.

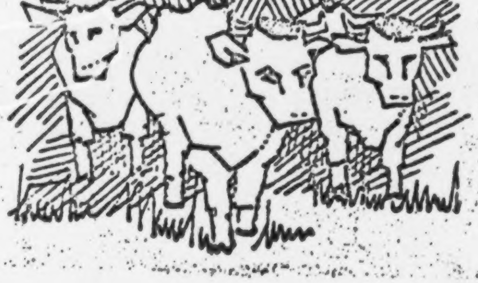
Who is eligible?

All New Brunswick resident farmers who:

a) Wish to make capital improvement to their farms which are in keeping with the overall goals set in the Agricultural Resources Development Agreement.

b) Have completed an approved farm development plan outlining the proposed improvements.

c) Have a total asset value of their complete farm holdings of less than $300,000 ($750,000 for multiple ownership).



How much money can I apply for?

The amount available is related to the amount of additional money which is required to implement the applicant's Farm Development Plan.

The maximum allowable is 25% of the additional money required, except in the case of land development where grants may be made up to 50%.

In any event, total grants may not exceed $25,000, of which not more than $15,000 can be for land development work.

If I receive a grant, what are my obligations?

1. To keep accurate financial and physical records as required in the program.
2. To cooperate with your Farm Management Counsellor in the development and implementation of your plan.
3. To advise the N.B. Farm Development Committee of any major changes in your plan.
4. To sign a contract setting out what is going to be done.

Can I replace existing farm machinery?

No. Incentive grants do not cover regular replacements of depreciated machinery. You will be required to prove that the machinery which you propose to purchase is additional to your current inventory and essential to the success of your farm plan.

Are There Any Other Conditions That Relate to Assistance On Farm Machinery?

Yes. Your farm plan must involve a total expenditure of $25,000 excluding the amount required for farm machinery.

How do I apply?

Contact your District Agriculturalist.

CAUTION

This brochure sets out to explain the Farm Development Program in simple terms. It does not attempt to cover all the details.
For further information contact your local District Agriculturalist.

FRASER'S POTATO NEWSLETTER

P.E.I.'S ONLY PUBLICATION FOR POTATO PEOPLE

COPYRIGHT, OTTAWA, APRIL 1968

HARRY FRASER
CHARLOTTETOWN R.R. 1
PRINCE EDWARD ISLand
PHONE: 902-569-2686

Interest Help In Ontario - Farmers who borrowed money at rates beyond 12% last season, can apply for a provincial govt. grant of up to 3%. The "Country Guide" note on this says applicants must have had minimum gross farm income of $8,000 in 1980 and own less than 75% of all farm assets.

New Brunswick also has an "interest help" plan for growers, providing they carry crop insurance.... What about other provinces and states?

New Brunswick's potato scene features more empty storages than seen in the Picture Province in several years.

Price to growers is mostly $15.50 per barrel (mostly Netted Gems). In Montreal, N.B. 10s are $1.31, with 20s at $2.55, and Gem 50s at $5.75.

More contract talks are scheduled for mid-week between McCain Foods and the N.B. Potato Agency.

Prince Edward Island growers had more cold weather last week than they had all during March. Temperature dipped to 18 Fahrenheit on Thurs. morning and stayed frozen all that day. Scattered light acreage of Superior (perhaps 80 acres) planted April 8-10 will likely survive OK.

P.E.I. shipping point prices to the truck trade are $1.35 on 10s, $2.65 on 20s, $6.00 to $6.10 on 50s (Netted Gems).

An Early Spring for potato planting, despite the cold snap last week, is shaping up for the east.... We note many growers gambling that Jack Frost will be on holidays in late May.

Maine Seed Plots in Venezuela were checked recently by Ed Plissey and Dick Hawki Atlantic, Sebago, Red Pontiac, and Belchip are all doing well.... Maine could be in a position to compete with Dutch and Canadian seed exports into Caribbean and South American markets.

Seed Piece Treatment - Calling A Spade, a spade ... or is it "calling a spud, a spu ... Gene Dallimore, U. of Idaho potato specialist, recently said:

"... trials conducted in controlled temperature chambers, using several formulati of both Captan and Dithane M45 or Manzate 200 proprietary registered seed piece treatm chemicals, showed that at both 45 and 50 degrees F, there was not adequate control of seed piece decay."

Extension man Dallimore cautioned that "under certain environmental conditions, some of the products on the market are not doing the job of preventing decay."

Similar results were found in Maine by Dr. Simeon Leach at the research lab in Oro

However, Gene Dallimore found at least one product that does "essentially prevent seed piece decay".... That's Orthocide Plus, which combines Captan and Mertect, and whic performed well in the 1980 Idaho Potato Specialist trials. They also got good results by treating whole seed tubers with Mertect alone.

Early Potatoes In Great Britain - First "lifting" is expected in a few short weeks. That's from acreage planted back in February. Those fields have made good progress despite all the wet weather in March.

Richard Dadson at the British PMB says "we anticipate a reduced volume of imported earlies." Those that have arrived so far are priced very high ... so all the marketing signs are good for first 1981 British spuds.

STABILIZATION PROGRAM FOR 1979
EASTERN CANADA POTATO CROP

OTTAWA, March 5, 1981 — Agriculture Minister Eugene Whelan today announced a stabilization program for the 1979 eastern Canada potato crop.

Potato producers in Ontario, Quebec and the Atlantic Provinces will receive a payment of 70 cents per hundredweight for potatoes grown and marketed in the 1979-80 crop year.

The stabilization payment is based on the difference between the support price of $3.42 per hundredweight (90 per cent of the previous five-year average indexed for changes in cash costs of production) and the average market return for the 1979 crop, which was $2.72.

The maximum claim per producer will be limited to sales of 10,000 hundredweights.

Application forms for the eastern Canada stabilization program will be mailed directly to producers, as well as being available in regional offices of Agriculture Canada's Food Production and Inspection Branch. Growers wishing to take part in the program must submit valid sales receipts to substantiate their claims.

In the case of bona fide partnerships, up to three partners may claim payments.

"This program is needed because potato producers in eastern Canada received poor prices for their 1979 crop," Mr. Whelan said.

"Prices for the 1980 crop are higher, but producers in Ontario, Quebec and the Maritimes are still recovering from low previous year returns."

For further information, contact:
Terry Pender
Agricultural Stabilization Board
(613) 995-5423

Source: NEWS - AGRICULTURE CANADA

STRUCTURE, BEHAVIOUR AND PERFORMANCE OF THE ATLANTIC GROUNDFISH INDUSTRY WITH SPECIAL REFERENCE TO THE QUALITY IMPROVEMENT PROGRAM -- MARVIN SHAFFER & ASSOCIATES, LTD.

Table A.1

Government Financial Assistance Programs Available to Fishermen in the Atlantic Groundfish Industry.

PROGRAM	PURPOSE	FUNDED BY
Fishing Vessel Construction Assistance Program	to assist fishermen meet high capital costs of constructing, converting or modifying vessels up to 75 feet in length.	D.F.O.-federal
Fishing Vessel Insurance Program	to provide low cost insurance for fishing vessels	D.F.O.-federal
Fisheries Improvement Loans Program	to increase availability of credit	D.F.O.-federal
Fisheries Prices Support Board	to protect fishermen against sharp declines in prices and loss of income through deficiency payments	D.F.O.-federal
Newfoundland Bait Services	to ensure adequate bait supply for inshore fishermen	D.F.O.-federal
Shipbuilding Industry Assistance Program	to provide financial assistant to shipyards for construction of vessels over 100 feet and to ensure the viability of a Canadian ship building industry	I.T.C.-federal
Unemployment Insurance Benefits	to provide income support for unemployed people including seasonal fishermen	C.E.I.C.-federal
Canada Manpower Training Program	upgrade workers skills to meet employers' changing requirements through training courses up to 52 weeks long	C.E.I.C.
Fisheries Loan Program	low interest loans to fishermen	Nfld.

Table A.1 (cont'd)

PROGRAM	PURPOSE	FUNDED BY
Fisheries Development Program	cost-sharing of development programs with the provincial governments	D.F.O.-federal
Canadian Salt Fish Co.	salt fish industry development	Crown Corporation - federal
Indian Economic Development Fund	loan assistance for businesses run by or primarily for the benefit of Indians	D.I.A.N.D. federal
Eskimo Loan Fund	loan assistance for businesses run by or primarily for the benefit of Eskimos	D.I.A.N.D. federal
Environment Management Service	to provide advance weather forecasting to fishermen	Ocean Science Environment Canada
Hydrographic Services	to make hydrographic charts available to fishermen	Survey's Branch Environment Canada

Table A.1 (cont'd)

PROGRAM	PURPOSE	FUNDED BY:
Fishing Ships Bounty Program	to assist fishermen to meet the capital costs of vessels	Nfld.
Small Fishing Boat Bounty Program	to assist fishermen to purchase vessels	Nfld.
Vessel Building and Repair Bounty Program	to assist fishermen in repairing vessels	Nfld.
Inshore Fishing Gear Program	to defray costs of fishing gear	Nfld.
Loan Interest Subsidy Program	defrays interest costs of vessel construction and repair	P.Q.
Maritime Fishery Credit Program	loans to assist in construction and repair of vessels and equipment	P.Q.
Small Boat Subsidy Program	subsidies on vessel construction	P.Q.
Gear Subsidy Program	subsidizes gear costs	P.Q.
Engine Subsidy Program	subsidizes cost of new engines	P.Q.
Insurance Premium Subsidy Plan	covers 100% of insurance costs of fishermen and vessels	P.Q.

Table A.1 (cont'd)

PROGRAM	PURPOSE	FUNDED BY:
Fisherman's Loan Board	provide low cost loans for vessel and related equipment construction	N.S.
Vessel Subsidy Plan	a grant for 25% of vessel cost	N.S.
Ice Making, Bait Freezing, Water Installation Program	details not available	N.S.
Fisheries Development Board	low cost loans to fishermen	N.B.
Insurance Premium Prepayment Program	defray costs of fishermen vessel and equipment insurance	N.B.
Prince Edward Island Landing Authority	to provide low cost financing for fishermen for the purchase of vessels and vessel construction	P.E.I.
Vessel Subsidy Program	15% vessel subsidy	P.E.I.
Fisherman's Holding Unit Program	to assist fishermen with grants to cover material costs to build holding units	P.E.I.
Light and Power Charge Assistance	to defray user costs of light and power	P.E.I.
Loan Deficiency Guarantee Program	provincial government guarantees on private sector loans to fishermen and processors	Nfld.

Table A.1 (cont'd)

Source:

Most of the information concerning federal and Newfoundland provincial programs is taken from Gerry M. Crawford-Dawe, "Inventory of Financial Assistance Programs to the Fishing Industry, D.F.O., Nfld. Region, November 1979, discussions with D.F.O. and is supplemented by:

Governement du Quebec, Ministere de l'Agriculture, des Pecheries et de l'Alimentation, "Strategie Quinquennale D'Allocation des Resources pour les Peches Maritimes du Quebec, 1980-1984", July, 1980;

D.F.O., Program Planning and Co-ordination Branch, Maritime Region, "Maritime Region Fisheries Manager's Handbook", Halifax, N.S.;

T.F. Peart, "Structure, Conduct and Performance of Atlantic Fishing Enterprises and Financing Institutions (1968-77), together with Government Policy Options for Fleet Financing Assistance Over Period 1978-85", D.F.O., October, 1978;

Government of Newfoundland and Labrador, "White Paper on Strategies and Programs for Fisheries Development to 1985", St. Johns, November, 1978;

Government of Newfoundland and Labrador, "Managing All Our Resources", St. Johns, 1980;

Province of Nova Scotia, "Fifteenth Annual Report", Department of Fisheries, March, 1979;

Province of Prince Edward Island, "Annual Report", Department of Fisheries, March, 1979;

Province of New Brunswick, "Annual Report", Department of Fisheries, March, 1979.

ii) Processors:- Financial assistance to processors is designed to help new firms enter the industry in areas of high unemployment and slow economic growth (through federal programs, such as, D.R.E.E.'s R.D.I.A. grants and provincial programs, such as Newfoundland's Secondary Development Incentives Program) and to assist existing firms to modernize and expand. An array of programs exist to defray the costs of introducing new machinery and processing techniques, training new employees, developing new products and marketing techniques. Although the programs listed in Table A.2 are not all inclusive, they illustrate assistance available to processors.

(b) Infrastructure Improvements:

Another function that government has undertaken in the Atlantic region is to develop programs to improve the industrial infrastructure for the benefit of the local users and communities. These programs can range from funding for small craft harbour improvements to programs designed to increase local employment. Table A.3 provides a listing of some of the major programs available.

(c) Tax Assistance:

The federal government has made some tax exemptions available to the fishing industry. These

Table A.2

Government Assistance Programs Available to the Atlantic Groundfish Processors

PROGRAM	PURPOSE	FUNDED BY:
Promotional Projects Program	to provide businessmen with access to export markets by financing costs of trade promotion, trade visits, trade missions, etc.	I.T.C. federal
Machinery Program	remission of import duty on machinery not produced in Canada	I.T.C. federal
Enterprise Development Program	assists firms with grants up to 75% of total cost to identify new products, for product development, to study productivity improvement projects - also insures loans from private lenders	I.T.C. federal
Small Business Loans Program	guarantee loans up to $100,000 from private lenders for purchase of equipment, premises or land.	I.T.C. federal
Export Market Development Program	grants up to 50% of costs (repayable if export sales result) of entering new markets or expanding existing markets by undertaking foreign capital projects, visiting trade fairs, etc.	I.T.C. federal
Canada Manpower - Industrial Training Program	develops worker skills through employer centered training and on the job training - covers up to 85% of wages and 100% of training cost	C.E.I.C. federal
Regional Development Incentives Program	to provide incentives for the creation, expansion and modernization of facilities in areas of low economic growth and high unemployment	D.R.E.E. federal

Table A.2 (cont'd)

PROGRAM	PURPOSE	FUNDED BY:
Manpower Mobility Program	grants to workers who have to relocate to obtain employment	C.E.I.C. federal
Secondary Processing Equipment Loans Program	financial support for the expansion and modernization of the processing sector	Nfld.
Production Machinery and Processing Technology Program	financial and technical assistance for design of plant layout and development and acquisition of machinery	Nfld.
Rural Development Loans Program	loans for the purchase of machinery and equipment	Nfld.
Market and Product Development Program	provides market and product development assistance	Nfld.
Federal Business Development Bank	financial assistance, loans, loan guarantees and equity financing to small businesses	Federal
Export Development Corporation	covers 90% of risk of loss in export transactions	Federal
Newfoundland and Labrador Development Corporation Loans Program	low cost loans if financing unavailable anywhere else	Federal/ Provincial
Newfoundland and Labrador Development Corporation Equity Program	shares of a company are purchased to provide capital - advisory assistance as well	Federal/ Provincial
Fish Transport Subsidy Program	a per pound subsidy to defray the costs of transporting fish to the plant	Quebec

Table A.2 (cont'd)

PROGRAM	PURPOSE	FUNDED BY
Economic Stimulation and Employment Maintenance	financial assistance for the modernization of processing plants	Quebec
Processing Plant Worker Subsidization Program	subsidizes wages to plant workers when plants cannot operate at sufficient capacity	Quebec
Gutting Machine Program	an experimental program for a limited number of machines	N.S.
Plant Development Program	cost sharing for plant development	N.S.
Cool and Cold Storage	to improve capacity and equipment through grants	N.S.
Ice Making and Storage	to provide sufficient ice making machinery through grants	N.S.
Aid to Fishing Associations	provides financial assistance to eleven fishing associations	N.B.
Fish Chilling Program	province funds 25% of cost of ice or fish chilling facilities	N.B.
Winterization of Fish Plants	contribute financial assistance to winterize fish plants	N.B.
Fish Chilling Program	grant of 25% of cost of chilling facilities	P.E.I.
Fish Box Pool	provides industry with fish boxes at cost plus 5% interest over 5 years	P.E.I.

Table A.3

Government Financial Assistance Available to Develop Fishing Community Infrastructure

PROGRAM	PURPOSE	FUNDED BY:
Inshore Fish Handling Systems Program	to improve fish quality by installing fish handling systems in Newfoundland ports	D.F.O. federal
Small Craft Harbours Program	to provide harbour facilities for the commercial fishery	D.F.O. federal
Canada Employment Program	to provide short-term employment to benefit local communities	C.E.I.C., D.F.O., D.R.E.E. federal
Fish Handling Facilities	to provide community stages at various locations around Newfoundland	Nfld.
Federal-Provincial Assistance to Development	provide financial assistance to development associations	Federal/ province
General Development Agreement Program	federal-provincial agreements to share costs of development programs in specific economic sectors	Federal D.R.E.E./ provinces
Incentive Grants for Unloading/Conveying	to improve productivity and unloading efficiency	N.S.
Incentive Grants for Wharves, Slipways/Haulouts	to improve infrastructure and harbour facilities	N.S.
Unloading Derrick, Weather Shelter, Fish Box Pull-Out, Oyster Storage and Grading Facilities, Haulouts, Slipways	to improve infrastructure and harbout facilities	P.E.I.

Table A.3

PROGRAM	PURPOSE	FUNDED BY:
Funding for Harbour Facilities	to improve harbours	N.B.

Source: See Table A.1

Table A.4

Government Tax Exemptions Available to Fisherman and Processors

PROGRAM	PURPOSE	Government Issuing Exemption
Machinery Program	provides remission of import-duty on machinery not available from Canadian manufacturers	Federal-I.T.C.
Federal Gasoline Sales Tax Refund	fuel refund of sales tax on gasolines purchases for commercial use	Federal-Revenue Canada
Federal Sales Tax Exemption	permits fishermen and processors exemption on tax payable on machinery and equipment	Federal-Revenue Canada
Fuel Tax and Fishing Gear Retail Tax	removes Nfld. sales tax from fishing gear and fuel purchases	Nfld.
Income Tax Act	5 year income average privilege integration of fishery incomes with non-fishing incomes for independent operators capital cost allowance provision to enable a 3 year Capital Cost Allowance on a straight line basis for fishing vessels	Revenue Canada
Federal Excise Tax on Diesel Fuel Refund	refund on federal excise tax on diesel fuel purchases available only to offshore vessels	Revenue Canada Federal

Source: . See Table A.1

include exemption on gasoline, federal sales tax and custom duty. As well, the Newfoundland provincial government also exempts fishermen from provincial sales tax on fuel and fishing gear. Tax assistance including income tax benefits is outlined in Table A.4.

(d) Direct Involvement:

In some instances, the federal and/or provincial government have become involved in direct operations in the groundfish industry, particularly during periods of depressed fish markets.

A notable example of this involvement is the Canadian Salt Fish Corporation (C.S.F.C.) which operates in Newfoundland and the Côte Nord of Quebec. The C.S.F.C. has exclusive marketing rights for all salt product within its charter's operating area. The C.S.F.C. announces its offer price for salt fish at the beginning of each season and then hires agents (processors) to package salt fish under its label. The Corporation advances its agents working capital as well as the required supplies to produce cured fish, e.g., salt. Funds to make infrastructural improvements and investments are made available to agents usually as part payment for product. As well, if an agent loses money over a season, the C.S.F.C.

makes up 50 per cent of the loss. U.I.C. premiums are paid by the C.S.F.C.(1) on behalf of the fishermen.

Although the C.S.F.C. has been a source of some controversy as to its marketing role, particularly since salt product markets have improved, it should be noted that this Corporation's charter allows it to operate only with the approval of the federal and provincial governments. The provincial governments could revoke the C.S.F.C. charter if they chose to.

Other notable examples of direct government involvement include the operation of two processing plants in Labrador at Nain and Makkovik by the Newfoundland and Labrador government. In Quebec, the federal Department of Indian Affairs helps to manage a processing plant in the Côte Nord area at Mingan.

4. Conclusion

Although the above listing of governments' involvement in the Atlantic fishery is not exhaustive, it does indicate governments' extensive participation in stock management, licensing, financial and tax assistance. The role of government itself is a most important structural characteristic of the industry.

---

(1) "Inventory of Financial Assistance Programs to the Fishing Industry", op. cit.

SUBSIDIES TO CANADIAN GROUNDFISH INDUSTRY BACKGROUND INFORMATION FOR COUNTERVAILING DUTY ASSESSMENT

ABSTRACT

This report represents a preliminary effort aimed at identifying the magnitude of subsidies to the Canadian groundfish industry. The results indicate that these subsidies are substantial and could be over 30 cents a pound for fillets. Subsidies of this magnitude can affect the ability of the U.S. groundfish industry to benefit from extended jurisdiction. Because of the subsidies, a U.S. countervailing duty may be justified under Section 303 of the Tariff Act of 1930.

This paper is one of several being prepared by a group working on problems related to the extension of the United States Fisheries Management Zone. Individuals involved are (listed in alphabetical order): Susan M. Capalbo, Joel B. Dirlam, Virgil J. Norton, and D.H. Wang. The University of Rhode Island Sea Grant Program and Agricultural Experiment Station have provided funds for the project. Contributions were also made by the National Marine Fisheries Service, Division of Industry and Consumer Services, Washington, D.C. This report represents U.R.I. Agricultural Experiment Station Contribution #1738.

Department of Resource Economics
University of Rhode Island
Kingston, Rhode Island 02881
June, 1977

CONTENTS

INTRODUCTION

CANADIAN SUBSIDY PROGRAMS

ESTIMATED PER POUND SUBSIDIES

ANNEX I A Brief History of Groundfish Import Investigations

ANNEX II Method of Calculation of Per Pound Subsidies

REFERENCES

Tables

TABLE 1 Products for which this report indicates a countervailing duty may be justified under Section 303 of the Tariff Act of 1930

TABLE 2 Subsidy programs for Canadian groundfish industry

TABLE 3 Nature and effect of subsidies at each level of groundfish industry

TABLE 4 Estimated Canadian federal and provincial government subsidies on groundfish

TABLE A.1 Assumptions and method used to estimate annual fixed cost subsidy on Canadian trawlers

TABLE A.2 Assumptions involved in estimating the annual fixed cost subsidy to Canadian groundfish processing plants

INTRODUCTION

The groundfish industry is an important element of the local and state economies of New England. Although certain segments of this industry are financially depressed, this in not a result of inherent industry inefficiency. Rather, it is primarily the result of the lack of United States federal action to overcome inefficiencies associated with the common property nature of the resource[1] and to deal with the excessive amount of heavily subsidized foreign fishing effort applied to fish stocks traditionally harvested by domestic fishermen.[2] This foreign effort and subsidized fish imports have long affected the competitive position of U.S. fish harvesting activities.[3]

The recent extension of the United States fishery conservation zone to 200 miles provides a basis for controlling foreign effort and for initiating rational resource management plans. The benefits accruing to the domestic fishing industry will be limited, however, by subsidized products imported for United States markets or which compete in foreigh markets with United States exports. Canadian products are of primary concern because of joint United States/Canadian access to certain fish stocks and the direct proximity of Canadian producing areas to United States markets. Canadian production of groundfish is likely to increase as a result of the extension (January 1, 1977) of their fish conservation zone to 200 miles.

Most of the fresh and frozen groundfish products processed by the Canadian Atlantic Coast industry is exported to the United States.[4] The Canadian federal and provincial governments have traditionally provided grants, bounties, and other forms of direct and indirect subsidies to their groundfish industry. (For example, see Power and Stolting, 1967). Most Canadian groundfish harvesting and processing capacity has benefited from at least one type of such financial assistance.

The purpose of this report is to identify these subsidies and to determine whether a countervailing duty appears to be justified.

Several important points should be considered in evaluating information presented in this report:

(1) Subsidies are provided in many forms and from various Canadian federal and provincial agencies. Thus, it is difficult to identify and quantify all subsidies offered.

(2) It has been necessary, because of the lack of some information, to make assumptions relative to some specific subsidy amounts. However, these assumptions do not affect the case for establishing countervailing duties. Rather, the assumptions relate only to the amount of the countervailing duty that should be imposed.

(3) It is the stated policy of the Canadian federal and provincial governments to continue to provide subsidies, at least in the short run (Environment Canada, 1976, pp. 47-50: Minister, L., 1977, p. 16). However, whether or not such subsidies are continued has little relevance. The current level of capacity has been created by a long-term policy of subsidy payments to fishing and processing enterprises.[5] This subsidized capacity will continue to affect the U.S. industry for many years. Continuation of subsidies will only exacerbate the situation.

(4) Certain Canadian governmental agencies have indicated that the primary purpose of subsidies and grants is to provide employment, raise living standards or to stimulate general regional development. When subsidies and grants are made to an industry which exports most of its production, the purpose is irrelevant in countervailing duty considerations. Therefore, the basic question here is whether the subsidies and grants lead to greater exports and/or lower prices than would exist without this financial assistance. The Canadian harvest and exports will be affected by stock abundance, fishing effort, and restrictions on catch and entry. In this preliminary study, we have not attempted to adjust for such variables.

(5) Where groundfish products are imported into the U.S. under duty, establishment of countervailing duties requires only proof of subsidies, not of injury to the United States industry.[6] The information presented in this report leaves little doubt that there is justification for the establishment of countervailing duties on the groundfish products listed in Table 1.

Canadian Subsidy Programs

Summarized in Table 2 are the institutional arrangements for subsidy payments or subsidized loans to the groundfish industry by Canadian federal and provincial governments. In some cases, the subsidies are available to other types of fishing enterprises or to non-fishing enterprises. Each governmental department or agency listed, however, has the power to provice subsidies or bounties payments or other forms of assistance to enterprises engaged in groundfish harvesting, processing, or handling.

Where information could be obtained, the expenditures are given in Canadian dollars along with the number of enterprises benefiting. The financial assistance programs summarized in Table 2 are grouped into four main categories: vessel construction and repair; harvesting operations; processing plant construction and expansion; and processing operations. Within each of these four categories different types of financial assistance programs are listed. These programs include grants available to finance fixed assets such as vessels or processing plants; subsidies dispensed in cents per pound payments for fish harvested or processed; and loans guarantees, available at lower interest rates or in amounts larger than would otherwise be available on the private market. The subsidies are also classified according to the level of the government making the payment. Some are paid directly by federal agencies, such as the Fisheries Prices Support Board or the Department of Regional Expansion. Others are administered by provincial departments or agencies, such as Fisherman's Loan Boards.

In order to reach a reasonable estimate of the total governmental assistance to the Canadian groundfish industry, all of these subsidy forms must be taken into account. To regard as a subsidy only a direct cash payment to fishermen or to processors for harvested or filleted first-quality groundfish is to neglect other forms that, quantitatively, can be even more significant than the current direct payments.

Table 3 provides a generalized overview of the effects of these subsidies at each step of the groundfish industry activity. The chart is intended to show the cumulative nature of the subsidies provided. It is not intended to show the quantitative importance of a subsidy at any particular stage of production or marketing.

An examination of Tables 2 and 3 clearly indicates that the subsidies and grants provided to the Atlantic Coast groundfish industry by the various Canadian government agencies are substantial and pervasive.

Estimated Per Pound Subsidies

Compiled in Table 4 are cumulative estimates of certain subsidies on a per pound basis for landed fish, fresh fillets and frozen fillets.[7] The subsidy on landed fish is made up of grants and other financial assistance for harvesting operations and capital investment. This subsidy is estimated to be in the range of 3.3 to 6.9 Canadian cents per pound. The exact per pound subsidy is a decreasing function of landings per vessel (see Table A.1).

Combining these subsidies on landed fish with the additional subsidies paid to processors, it is estimated that the subsidy on frozen fillets and blocks ranges between 24.9 and 34.8 Canadian cents per pound. Processors do not directly receive payments on exported fresh groundfish fillets. However, because of the joint use of equipment and facilities, the subsidy received on domestically consumed fresh fillets is in reality a subsidy to be spread over the entire fresh fillet output (about one-third of which is exported). Hence, subsidies on fresh groundfish fillets exported to the United States are estimated to range between 22.9 and 32.8 Canadian cents per pound (see Table 4).

These subsidy estimates apply to landings from vessels, and to production by processors which, respectively, have received the maximum allowable federal grants. Not every vessel or processor has benefited from the maximum permissible federal subsidy or provincial low-interest rate loan.

ANNEX I

A Brief History of Groundfish Import Investigations

On at least five occasions the United States government has investigated the effect on the domestic industry of the import of groundfish fillets. In 1952 a majority of the Tariff Commission voted against import restrictions. On May 7, 1954, a Commission majority voted in favor of restricting imports. President Eisenhower, however, declined to follow the Commission's recommendation. On October 12, 1956, the Commission unanimously recommended the maximum permissible increase in duty.

The President again did not agree. As a result of another Tariff Commission investigation under Section 225(b) of the Trade Expansion Act of 1962, groundfish fillets and steaks were reserved from negotiations for tariff reductions in the Kennedy Round. (U.S. Dept. of the Interior, 1969). On April 5, 1977, in response to a petition filed by the Fisherman's Marketing Association, Inc. in Seattle, the United State Department of the Treasury determined that the right to impose a countervailing duty should be waived. The Department of Treasury concluded the criteria of Section 303(d)(2) of the Tariff Act of 1930, as amended by the Trade Act of 1974, had been met: (A) the Canadians were taking adequate steps to reduce or eliminate the direct payments to processors on the products included in the petition; (B) there was a reasonable prospect that a trade agreement would be entered into with Canada providing for the reduction or elimination of barriers to international trade; and (C) the imposition of the duty would jeopardize negotiations with Canada.

ANNEX II

Method of Calculation of Per Pound Subsidies

Tables A.1 and A.2 identify the assumptions used for calculating the subsidies given in Table 4. Table A.1 is based on the costs associated with a 115-foot side trawler and a 155-foot stern trawler. Capital costs and landings per vessel are within the ranges appearing in studies of fishing vessels as reported by the Department of Fisheries of Nova Scotia.[8] It is assumed in this analysis that grants account for only 35% of the capital costs of the two trawler categories. A sample reported on by the above department, however, indicated that 50% of the cost of vessels is generally covered by grants.[9] Therefore, the estimated subsidy in Table A.1 should be considered as conservative. Note also that subsidies to shipyards and certain infrastructure as referred to in text Table 2 are not included in Table A.1. This is a further indication of the conservative level of this estimated harvesting subsidy. To the extent that market or subsidized interest differ from our assumptions, subsidy estimates would also change. A return on equity is assumed to

REFERENCES

Charon, J.P. 1972. Costs and earnings of selected fishing enterprises, Atlantic Provinces, 1969. Ottawa. Fisheries and Marine Services, Environment Canada. Ottowa.

Crutchfield, J. and A. Zellner. 1963. Economic aspects of the Pacific halibut industry. Fish. Ind. Res. 1(4), U.S. Department of the Interior, Bureau of Commercial Fisheries, Washington, D.C.

Department of Fisheries, Province of Nova Scotia and Fisheries and Marine Service, Environment Canada. 1975. Cost and Earnings of Selected Fishing Enterprises, Nova Scotia, 1974. Ottawa.

Department of Fisheries, Province of Nova Scotia and Fisheries and Marine Service, Environment Canada. 1973. Cost and Earnings of Selected Fishing Enterprises, Nova Scotia, 1971-1972. Ottowa.

Environment Canada. 1976. A Policy for Canada's Commercial Fisheries. Ottawa.

Fisheries and Marine Service, Environment Canada. N.D. Annual Review of Canadian Fisheries, Vol. 8, 1975. Ottawa.

Gates, J. and V. Norton. 1974. The benefits of fisheries regulation: A case study of the New England yellowtail flounder fishery. Marine Tech. Report, No. 21, University of Rhode Island, Kingston.

Gordon, H.S. The economic theory of common property resource: The fishery. J. Political Economy 62(2): 124-142.

Holmsen, A. 1977. Transfer subsidies to the fishing industry in Iceland and Norway. University of Rhode Island, Agr. Exp. Sta. Bull.

Kaczynski, W. 1977. Controversies and strategy of marine fisheries development between eastern and western countries. University of Washington, Seattle. (Mimeo)

constitute a cost, even though fishing vessels may not always or currently report net earnings on the owner's investment. If the opportunity cost of capital were not covered in the long run, the fleet would shrink and, other things being equal, so would Canadian exports to the U.S.

The estimate of subsidies for fixed costs of processing plants (Table A.2) relied upon the relationship between grants by the Department of Regional Expansion and the fixed costs of fish processing plants it has subsidized in the Atlantic Region. In estimating these subsidies, no allowance was made for the subsidies provided by the provincial governmental agencies because such subsidies are pervasive and difficult to quantify. Total grants by the Department of Regional Expansion have been about one-half the cost of fixed assets for fish processing plants constructed furing the period 1969-1976.

Power, E.A. and W.H. Stolting. 1967. Canadian Fishing Aids. U.S. Department of Interior, Washington, D.C.

Scott, A. 1955. The fishery: Objectives of sole ownership. J. Political Economy 63(2):116-124.

U.S. Department of the Interior. 1969. Report of the Secretary of the Interior to the President and Congress on the Effect of Imports on the United States Groundfish Industry. Washington, D.C.

FOOTNOTES

[1] Gordon (1954), Scott (1955), Crutchfield and Zellner (1963), Gates and Norton (1974), and others have documented the common property problem as related to the fishing industry.

[2] Russian, Polish, Bulgarian and East German fleets are and have been built and operated at heavy financial loss (Kaczynski, 1977). Norwegian and Icelandic fisheries are also subsidized (Holmsen, 1977). Canadian subsidies are discussed herein.

[3] See Annex I for a brief historical review of investigations of the effect on the domestic industry of the import of groundfish fillets.

[4] Canadian publications generally include as grounfish haddock, cod, flounder, pollock, ocean perch, and certain other species. In 1975, the Canadian production of fillets and blocks of major groundfish species totaled 185 million pounds of which exports to the United States were 150 million pounds (Environment Canada, 1975). According to a recent study, over 90% of Canadian groundfish exports are marketed in the United States (Environment Canada, 1976).

[5] According to a private Canadian research organization, ". . . A problem throughout the region has been an over-expansion of capacity particularly of fish processing plants . . . while provincial agencies such as IEL, IEI, NBDC and the Newfoundland and Labrador Development Corporation Ltd. must accept some of the responsibility for this over-extension of capacity, so too must the federal agencies for . . . failing to limit its zeal for subsidizing fish plants . . ." (Atlantic Provinces Economic Council, 1976, p. 152).

[6] Only if the product is imported free is it necessary to show injury to the domestic industry before a countervailing duty is levied. Section 303 of the Tariff Act of 1930, as amended by the Trade Act of 1974, Section 331.

[7] It was not possible to quantify all subsidies, expecially those in the form of loans or loan guarantees. For this reason, some subsidies listed in Table 2 are not included here. Therefore, the subsidy estimates given in Table 4 may be considered as conservative. See Annex II for details of the calculations presented here.

10

[8] Capital costs for side trawlers and stern trawlers were taken from Table 15, Department of Fisheries, 1973, p. 24. Landings for 1966-1974 appear in Department of Fisheries, 1975, Tables 7(f), 7(g), and 7(h).

[9] Cf. Tables 10 and 15 in Department of Fisheries, 1973.

Table 1.--Products for which this report indicates a countervailing duty may be justified under Section 303 of the Tariff Act of 1930[1]

TSUS	Product Description
110.35-60	Flounders, whole, fresh or chilled (Duty: .5¢ per lb.)
110.35-65	Flounders, whole, frozen (Duty: .5¢ per lb.)
110.35-70	Fish, other: whole, or processed by removal of heads, viscera, fins or combination thereof but not otherwise processed, fresh or chilled (Duty: .5¢ per lb.)
110.35-75	Fish, other: -whole, or processed by removal of heads, viscera, fins or combination thereof but not otherwise processed, frozen (Duty: 1.875¢ per lb.)
110.50-25	Atlantic ocean perch, fillets, fresh or chilled within quota (Duty: 1.875¢ per lb.)
110.50-30	Atlantic ocean perch, fillets, frozen within quota (Duty: 1.875¢ per lb.)
110.50-45	Cod fillets, fresh or chilled within quota (Duty: 1.875¢ per lb.)
110.50-50	Cod fillets, frozen within quota (Duty: 1.875¢ per lb.)
110.50-65	Cusk, haddock, hake and pollock fillets, fresh or chilled within quota (Duty: 1.875¢ per lb.)
110.50-70	Cusk, haddock, hake and pollock fillets, frozen within quota (Duty: 1.875¢ per lb.)
110.55-20	Atlantic ocean perch, fresh, chilled or frozen above quota (Duty: 2.5¢ per lb.)
110.55-45	Cod fillets, fresh or chilled, above quota (Duty: 2.5¢ per lb.)
110.55-50	Cod fillets, frozen above quota (Duty: 2.5¢ per lb.)
110.55-65	Cusk, haddock, pollock fillets, fresh or chilled, above quota (Duty: 2.5¢ per lb.)
110.55-70	Cusk, haddock, hake and pollock fillets, frozen, above quota (Duty: 2.5¢ per lb.)

[1] Duties listed are current import duties. Because these products have import duties, it is not necessary to show injury to the industry before imposing a countervailing duty.

TABLE 2. Subsidy Programs for Canadian Groundfish Industry

1 Source of Subsidy	2 Applicable Statute or Regulations	3 Date of First Program	4 Type	5 Activity Subsidized	6 Maximum Available
VESSEL CONSTRUCTION AND REPAIR					
FEDERAL GOVERNMENT					
1) Dept. of Environment, Fisheries & Marine Service	Fisheries Development Acts	1962	Grants	Construction excluding gear	35%
2) Dept. of Industry, Trade & Commerce Transportation Industries Branch	Ship Construction Subsidy Regulation, Shipbuilding Temporary Assistance Program, Shipbuilding Industry Assistance Program	1970	Grants	Construction	35% to 1975, 13% in 1975, 1% less each year until 1981
3) Dept. of Finance Guaranteed Loans Administration	Fisheries Improvement Loans Act	1955	Loan Guarantees	Purchase, construction, gear, shore installation	$50,000 per fisherman
PROVINCES					
4) New Brunswick, Fisherman's Loan Board	Fisherman's Loan Act	NA	Loans	Construction, repair, purchase	75% net cost after subsidy
5) Newfoundland, Dept. of Fisheries, Fisheries Loan Board	Fishing and Coastal Vessels	1958	Grants	Construction, rebuilding, repairs	$200 per gross ton
6) Nova Scotia Resources Development Board	Fisherman's Loan Act	NA	Loans	Construction, purchase, conversion	75% net cost after subsidy
7) Prince Edward Island Lending Authority	Crown Corp. Est. 1969, Fishermen's Loan Act	1969	Loans	Construction and purchase	15% - 30%
8) Quebec Dept. of Commerce, Commercial Fisheries Branch	NA	NA	Grants	Construction and repair	$12,000 to shipbuilder 12-40 feet
			Loans	Construction and repair	90%
HARVESTING OPERATIONS					
FEDERAL GOVERNMENT					
9) Dept. of Environment, Fisheries Prices Support Board	Fisheries Price Support Act: "Budgetary Allocations" to Dept. of Environment, Temporary Assistance Program (1975-1977)	1967 1975	Payments (Grants)	Fish handling	2.5c per lb. landed weight reduced to 1.5-2c per lb. (1976)
10) Fisheries and Marine Service	Budgetary allocations from Dept. of Environment	1976	Grant	Vessel operation	NA
11) Fisheries and Marine Service	Budgetary allocations from Dept. of Environment	1976	Grant	Vessel operation	NA
12) Fisheries and Marine Service	Budgetary allocations Fisheries Development Act	1962	Grant	Fish chilling and storage	50% cost

7 Major Prerequisites and Terms	Fiscal '73-'74	8 Amount Paid Out Fiscal '74-'75	Fiscal '75-'76	9 Amount Appropriated Fiscal '76-'77
To owners, 1959-69: vessels up to 65'; 1970-75: vessels 35'-75'; 1976 minimum length 40'[a]	$9.2 million	$3,877,000, 251 Atlantic vessels	$3,575,455, 254 Atlantic vessels	$4 million
To builders of fishing vessels over 75'	$5 million 9 trawlers	$5 million 5 trawlers	$5.6 million 10 trawlers	$4.7 million 4 trawlers
10 yr. repayment Annual installments Maximum rate (3/75) 10%	NA	$2,109,589 (in Atlantic Provinces)	$2,060,723	NA
5% interest	$6.3 million 93 boats (offshore)	$6.5 million 89 boats (offshore)	$6.5 million 66 boats (offshore)	NA
Boats 10-150 tons, under permit	NA	NA	NA	NA
7-1/2% on boats; 6-1/2% on engines	$1.3 million 7 boats	$1.4 million 72 boats	$1.5 million 59 boats	NA
Subsidized vessels receive lower loan, 15% cost, 5.5% interest rate (3/31/75)	Fixed capital; $665,000 94 loans	Fixed capital; $366,000 107 loans	Fixed capital; $340,681 56 loans	NA
18' - 44.9'	NA	$2.2 million	NA	NA
New boats or conversion	NA	NA	NA	NA
First quality groundfish, not in excess of 1974 (1975) landings	NA	NA	$20,679,300	$44 million available fiscal '77 for harvesting and processing grants[b]
Groundfish caught outside Gulf of St. Lawrence	NA	NA	NA	NA
Fishing by Newfoundland in new areas for traditional species	NA	NA	NA	NA
Up to $25,000 per facility	NA	$2,000,000	NA	NA

TABLE 2 (continued)

1 Source of Subsidy	2 Applicable Statute or Regulations	3 Date of First Program	4 Type	5 Activity Subsidized	6 Maximum Available
13) Fisheries and Marine Service	Budgetary allocations from Dept. of Environment	NA	Grant	Vessel insurance administration	NA
14) Fisheries and Marine Service	Union terms, Newfoundland, Canada	1973	Grant	Bait service	87-1/2%
15) Dept. Regional Economic Expansion; Subsidiary Federal Provincial Agreement Newfoundland	Regional Development Incentives Act	1976	Grant	Landing, repair, haul-out, infrastructure	100%
PROVINCES					
16) Newfoundland	NA	NA	Grant	Gas and diesel fuel	100%
17) Quebec	NA	NA	Grant	Boat insurance premium	100% individuals, 50% companies
18) Quebec	NA	NA	Grant	Gear cost	1/2¢ per lb. groundfish
PROCESSING PLANT CONSTRUCTION AND EXPANSION					
FEDERAL GOVERNMENT					
19) Dept. of Regional Economic Expansion	Regional Development Incentives Act	1969	Grant	Job creation manufacturing and processing	25% capital cost plus $5,000 per direct job, to 50% of capital[c]
20) Dept. of Regional Economic Expansion; Subsidiary Federal Provincial Agreement, Newfoundland	NA	1976	Grant	Establishment of water systems for fish processing plants, provision of infrastructure	Determined by plant needs
PROVINCES					
21) New Brunswick Development Corp.	Crown Agency	1970	Loans	Manufacturing and processing	NA
22) New Brunswick Industrial Finance Board	NA	NA	Loans, loan guarantees	New and expanding industries	NA
23) Newfoundland and Labrador Development Corp., Ltd.	Crown Corp.	1973	Loans, equity investment	Expansion and modernization of processing	Loans to 3 times equity; equity investment share 49%
24) Nova Scotia Industrial Estates, Ltd.	Crown Corp.	1957	Loans	Establishment, expansion of manufacturing and assembly	NA

7 Major Prerequisites and Terms	8 Amount Paid Out Fiscal '73-'74	Fiscal '74-'75	Fiscal '75-'76	9 Amount Appropriated Fiscal '76-'77
NA	NA	NA	NA	NA
Available in Newfoundland	$700,000	NA	NA	NA
Matching Grant by Newfoundland	NA	NA	NA	Federal Newfoundland
Tax rebate	NA	NA	NA	NA
NA	NA	NA	NA	NA
NA	NA	NA	NA	NA
New facility, or expansion or modernization of existing plant, in certain regions	Atlantic Region fish processing received $24,229,716 in grants during 1969-1976			
Matching grant by Newfoundland	NA	NA	NA	Federal $5,517,000 Newfoundland $613,000
Inability to acquire funds from conventional sources	NA	$11,959,153 (all activities)	$556,000	NA
Equity capital at reasonable level; first mortgage to lending institution	NA	Contingent liability 3/31/75 $116,249,138 (all activities)	NA	NA
Rate of interest same as private institution	Groundfish processing projects $2,137,000 (1973-1976)			NA
In excess of amounts available through commercial channels. 100% mortgage land and buildings. Interest rate 1 to 1-1/2% above rate charged to IEL	$89,549,614 outstanding for 45 projects 1970-71 - 1975-76 (all activities)			NA

TABLE 2 (continued)

1 Source of Subsidy	2 Applicable Statute or Regulations	3 Date of First Program	4 Type	5 Activity Subsidized	6 Maximum Available
25) Prince Edward Island, Industrial Enterprises, Inc.	Crown Corp.	1965	Loans, equity investment	Establishment, expansion of manufacturing and processing	Equity to 25%
26) Cape Breton Development Corp.	Cape Breton Development Act	1967	Loans, grants	Establishment of industries to replace coal mining	NA
PROCESSING OPERATIONS					
FEDERAL GOVERNMENT					
27) Dept. of Environment, Fisheries Loan Board	Fisheries Price Support Act; Fisheries Development Act Amended	1967; 1975	Grant	Processing	8c per lb. (1975-76) Product weight 6c per lb. (1976-77)
28) Fisheries Loan Board	Fisheries Price Support Act; Fisheries Development Act Amended	1976	Grant		3c per lb. Product weight

Source: Canadian Ministry of Foreign Affairs, Submission to the U.S. Treasury, Environment Canada, Fisheries and Marine Service, Department of Regional Economic Expansion; Quebec Direction Generale des Peches Maritimes; Provincial Fisherman's Loan Boards and Development Agencies.

7		8 Amount Paid Out		9 Amount Appropriated
Major Prerequisites and Terms	Fiscal '73-'74	Fiscal '74-'75	Fiscal '75-'76	Fiscal '76-'77
First mortgage. Interest rate 1% above IEL borrowing rate	NA	NA	NA	NA
Low interest, easy repayment	Total assistance, all fish processing through 1977, $2 million in loans for 25 projects			NA
Payment of 7/74 ex-vessel groundfish prices, first quality gutted and bled; fresh fillet exp. exc.	NA	NA	NA	NA
First quality groundfish not gutted or bled	NA	$4,376,000	$16,111,113	$44 million available for harvesting and processing grants[d]

---

[a] Vessels must not be operated in restricted entry fisheries only.

[b] $1,151,340 spent through July 30, 1976, for harvesting grants.

[c] Ceilings vary with purpose and size of project.

[d] $805,631 (to July 30, 1976) for processing.

Table 3. Nature and effect of subsidies at each level of groundfish industry

SHIPYARDS

Subsidies: Federal grant for performance improvement

Effect: Makes shipyard services available at lower price

VESSEL CONSTRUCTION, MODERNIZATION, CONVERSION, REPAIR, PURCHASE

Subsidies: Grants, loans, loan guarantees by federal and provincial governments

Effect: Substantially reduces required investment in fishing vessels; raises proportion of new, efficient vessels

HARVESTING

Subsidies: Bait, insurance, fuel

Effect: Reduces current operating outlays

FISH HANDLING

Subsidies: Federal and provincial payments to vessel owners per pound of first quality fish landed

Effect: Increase supply and lowers price of first quality landed groundfish

LANDING FACILITIES

Subsidies: Federal and provincial matching grants for landing, including haul-out, etc., facilities

Effect: Reduce required outlays by fishing vessels

PROCESSING PLANT CONSTRUCTION, MODERNIZATION AND EXPANSION

Subsidies: Grants, loans, guarantees by federal and provincial governments for plants and infrastructure

Effect: Substantially reduces required investment in processing plants, raises proportion of new, efficient plants

FISH PROCESSING

Subsidies: Paid per pound, fresh and frozen fillets and blocks

Effect: Reduces margin necessary to break even on processing. Increases supply of fresh fillets, frozen fillets and blocks

Table 4.--Estimated Canadian federal and provincial government subsidies on groundfish[1]

	Subsidy to Harvesting Sector (Per Pound: Landed Weight Basis)	
Sector	Minimum Case	Maximum Case
Harvesting[2]		
Fixed Costs[3]	1.00	4.60
Operating Costs[4]	0.50	0.50
Deficiency Payments	1.75	1.75
Total	3.25	6.85
	Subsidy to Processing Sector (Per Pound: Processed Weight Basis)	
Processing Frozen Fillets		
Fixed Costs[5]	10.0	10.0
Conditional Grant	6.0	6.0
Total	16.0	16.0
Processing Fresh Fillets		
Fixed Costs[5]	10.0	10.0
Conditional Grant[6]	4.0	4.0
Total	14.0	14.0
	Subsidy to Harvesting and Processing Sectors (Per Pound: Processed Weight Basis)	
Frozen Fillets		
Harvesting[7]	8.9	18.8
Processing	16.0	16.0
Total	24.9	34.8
Fresh Fillets		
Harvesting	8.9	18.8
Processing	14.0	14.0
Total	22.9	32.8

[1] Expressed in Canadian cents.

[2] Based on Table A.1.

[3] Assumes insurance, ice or other cooling facilities, fuel and bait subsidies amount to .5¢ per lb. (see Table 2).

[4] Assumes half the fish are landed gutted and receive 2¢ per lb.; half are landed whole and receive 1.5¢ per lb.

[5] Based on Table A.2.

[6] Assumes one-third fresh fillets are exported and 6¢ per lb. available for domestic sales.

[7] Applies a conversion ratio of 2.75 (fillets to landed weight). This is derived from the assumption that half of the landed fish are gutted (conversion ratio of 2.5) and half are whole (conversion ratio of 3.0). Thus, for example, 2.75 multiplied by the landed weight subsidy of 3.25¢ gives the subsidy to the harvesting sector converted to a product weight basis (i.e., 2.75 x 3.25 = 8.9 and 2.75 x 6.85 = 18.8).

Table A.1.--Assumptions and method used to estimate annual fixed cost subsidy on Canadian trawlers

Assumptions:

1. Vessel construction cost: side trawler, $550,000; stern trawler, $1,100,000
2. Annual depreciation, 7.5% vessel cost,[1] net of 35% construction cost subsidy
3. Vessel with subsidy borrows 75% of cost, net of subsidy @ 4.75% interest
4. Vessel without subsidy borrows 50% of total cost, @ 9.5% interest
5. Owner's equity is 50% of vessel cost of non-subsidy vessel, and 16.25% of vessel cost of subsidized vessel, and earns 12% after taxes

	Side Trawler		Stern Trawler	
	No Subsidy	Subsidy	No Subsidy	Subsidy
Interest	$21,375	$12,736	$ 42,750	$ 25,472
Depreciation	41,250	26,813	82,500	53,626
Return on Owner's Equity	33,000	10,725	66,000	21,450
Total	$95,625	$50,274	$191,250	$100,548
	- 50,274		- 100,548	
Estimated Vessel Subsidy	$45,351		$ 90,702	

Vessel Landing Levels	Per lb. Subsidy	Vessel Landing Levels	Per lb. Subsidy
2,000,000 lbs.	2.3¢	2,000,000 lbs.	4.6¢
2,500,000 lbs.	1.8¢	2,500,000 lbs.	3.6¢
3,000,000 lbs.	1.5¢	3,000,000 lbs.	3.0¢
3,500,000 lbs.	1.3¢	3,500,000 lbs.	2.6¢
4,000,000 lbs.	1.2¢	4,000,000 lbs.	2.4¢
4,500,000 lbs.	1.0¢	4,500,000 lbs.	2.0¢

---

[1] Charron, 1972, p. 112.

Table A.2.--Assumptions involved in estimating the annual fixed cost subsidy to Canadian groundfish processing plants

Assumptions	
1	Value added net of wages and salaries of large Canadian processing plants (size class 100 employees and more) approximates depreciation, return on investment before income taxes and allowance for indirect taxes other than sales tax, if any. The margin is about 25%.
2	One-half the capital of the plants is provided by grants from the federal government, based on a review of loans by the Development Regional Economic Expansion Program.
3	The subsidy to fixed costs processing approximates 10% of the value of shipments, after income taxes.

U.S.-CANADIAN TRADE IN FROZEN GROUNDFISH PRODUCTS, 1970-1981

Roger Corey

Economics

NOAA/Sea Grant
University of Rhode Island
Marine Memo 70

Note:

Much of this analysis--especially U.S. data prior to 1976--is based on an earlier study, which may be consulted for a more complete understanding of U.S.-Canadian trade in fish. See J. B. Dirlam and D. Wang, Canadian Trade Practices and Policies Relative to Fish Commodities, Dept. of Commerce, under Contract #7-35365 (7/5/78).

Edited by Christine Duerr

This publication is the result of research partially sponsored by NOAA Office of Sea Grant, U.S. Department of Commerce, under Grant #NA79AA-D-00096. The U.S. Government is authorized to produce and distribute reprints for governmental purposes notwithstanding any copyright notation that may appear hereon.

Additional copies of this publication are available from URI, Marine Advisory Service, Publications Unit, Bay Campus, Narragansett, RI 02882.
P 922

INTRODUCTION

The United States import market, particularly for frozen fish products, is extensive. Between the years 1970 and 1981 this need has provided Canada, for one, a major market for its exports of fresh and frozen fish and allowed it to become a prime supplier of U.S. import needs.

This relationship demonstrates a high degree of interdependency between the United States and Canada; however, interestingly enough the dependency is uneven. The U.S. is less dependent upon Canada as a supplier than Canada is on the U.S. as a purchaser.

This analysis attempts to describe briefly the trade relationship between the U.S. and Canada through the last decade and illustrate changes in relative dependency between the two nations. Special attention is given to New England, as this region is particularly affected by international trade in groundfish products.

The species under consideration are classified as groundfish and include Atlantic cod, cusk, hake, haddock, pollock and flatfish (primarily flounder and turbot). These fish constitute most of New England's landings of food fish. The vast majority of these landings, in turn, are intended for consumption as fresh fish, which ultimately brings a much higher price from the consumer than does frozen fish and, in addition, costs less to be processed, handled, etc.

Currently New England fishermen are caught in a tight economic situation. Consumer demands per capita for fresh and frozen fish has only risen moderately in the past decade and, in 1980, registered a drop of .2 to 13 pounds. At the same time the passage of the 1976 Fishery Conservation and Management Act, now called the Magnuson Act, extending the U.S. fishing limit to 200 miles, precipitated an increase in the harvesting sector. Landings of edible fishery products went up from 2.8 billion lbs. in 1976 to 3.7 billion in 1980. Also, operating costs, largely due to fuel prices and high financing payments, have risen. Fishermen thus can ill afford competitive pressure that reduces ex-vessel prices. Such pressure comes from imports of fresh and frozen fish, largely from Canada. Subsidization of the Canadian fishing industry by its government allows imports into the U.S. to outcompete U.S. products in many cases. Insofar as imports displace U.S. fish from the wholesale market, these damage the U.S. fisherman as he then has fewer buyers for his fish. In certain regions, such as New England, fish is largely destined for the fresh market through restaurants and other institutions. For these buyers it makes little difference whether the fish has been frozen or not; the prime consideration becomes cost. Canadian imports usually come into the country processed as fillets at a price much lower than U.S. processors can offer using domestic fish. The result is the purchase of imported fish over domestic even at some restaurants or institutions located adjacent to large fish piers. Therefore frozen imports become an effective competitor with U.S. fish.

FROZEN GROUNDFISH FILLETS AND STEAKS

The market for frozen groundfish fillets illustrates well the relative dependency of the two nations. Canadian groundfish constituted less than one-half of all U.S. groundfish fillets importedin 10 out of the last 11 years. The U.S. is very dependent upon imports of this product; imports were more than ten times the quantity produced domestically from 1970 to 1979. Looking more closely at groundfish production, it can be seen from Table 1 that U.S. production of frozen fillets is a very small proportion of total supply 8% or less since 1970. Imports, recently 40-50% of which have been Canadian fish, account for the majority of the supply of frozen groundfish fillets.

The reason for U.S. domestic production being so low is that U.S. processors cannot compete against frozen imports. By the time their costs are added to the comparatively higher ex-vessel price of fish in the U.S., the U.S. processor cannot compete against frozen imports of Canadian groundfish. As an illustration, in 1980 the average monthly price for imported Canadian frozen cod fillets was 89.4¢ per pound. At the same time, the U.S. average monthly ex-vessel price for cod was 28.4¢ per pound. Since this is for drawn fish, not fillets, this ex-vessel price must be converted to a fillet equivalent. It takes 2.63 pounds of drawn cod to get 1 pound of cod fillets, so one must multiply the drawn cod price of 28.4¢ per pound by the conversion factor of 2.63 to get the actual cost of the fillets at 74.7¢ per pound. This is what it costs the processor for cod fillets, exclusive of his additional costs of processing the drawn fish into fillets. This raw material cost leaves the processor with only 14.7¢ per pound to cover his other expenses.

Nevertheless, total U.S. production of frozen groundfish fillets rose in 1979 to nearly 130% of the 1970-76 average, still remaining a relatively low 8.2% of total supply. This was due largely to the growth in the harvesting sector caused by the 200-mile limit extension.

New England landings are the source for a large proportion of the U.S. domestic production of groundfish fillets and steaks. For instance, according to the National Marine Fisheries Service (NMFS) data, New England production of fresh and frozen cod fillets and steaks in 1979 was nearly 30 million pounds, or 88% of total U.S. production. This production amounted to a 35% increase for 1979, which was followed by a 1980 decrease (Table VI). Data for other species of groundfish show similarly high proportions. It must be remembered that in Tables VI and VII all but the import data columns group fresh and frozen fish together. Comparisons of fresh versus frozen fish in the New England market is severely restricted by the limited data available.

Imports to the U.S. also registered a rise, along with the U.S. increase in production, to 45% in 1979, thus making the total supply of frozen fillets much higher than in previous years (Table 1). Canadian imports of frozen groundfish fillets also rose slightly to almost 40% of the total U.S. imports. In 1981 imports of frozen groundfish fillets into New England jumped 86% as of June, over Jan-June 1980.

Production in New England is largely of fresh fillets and Canadian imports largely of frozen fillets. However, there is a rising trend towards imports of fresh fillets from Canada reaching a total of 8 million pounds in 1980 compared with 5.5 million in 1978. For the first 6 months of 1981 it is estimated that Canadian fresh fillets of groundfish imports almost equalled the 1980 total, being 56% over the same period last year. Imports of fresh whole groundfish through June 1981 were over 12 million lbs, or 91% higher than corresponding levels in 1980.

FROZEN BLOCKS

U.S. production of frozen blocks, of all species, is also insignificant compared with total supply (Table II). Again it is to be noted that U.S. processors cannot produce blocks from domestic product at a competitive price with imports. The overwhelming majority of blocks used in the U.S. comes from imports, which have been increasing in quantity since 1970. Canada supplied only 31% of the U.S. imported blocks, largely groundfish blocks, in 1980. This compares with 30% in 1970 and a ten-year low of 12% in 1975.

CANADIAN DEPENDENCY

Figures obtained from the U.S. and Canadian governments illustrate that Canadian fishermen have a very high dependence on the U.S. frozen fish market. Over the last 7 years, 70% of total Canadian exports of frozen fillets and steaks of all species grouped together go to the U.S. Since 1974 an average of 95% of all Canadian exports of block of all species were bound for the U.S. For frozen groundfish fillets and steaks this ratio is higher still--96% of all Canadian exports go to the U.S.

This dependence is made more evident when one takes into consideration exports into the U.S. as a percentage of total Canadian production of fish. From 1974 to 1978, this ratio for frozen groundfish averaged 76%; for blocks of all species, 73%; and for frozen fillets and steaks of all species, 58% (Tables III-V).

Canada has been reducing her dependency on the U.S. market for groundfish fillets and steaks. In comparison with total Canadian production, the export rate from 1974 to 1978 rose slower than did the Canadian production. Table III illustrates the decline in the ratio of U.S. bound exports of all frozen fillets and steaks to production as such exports increased only 29% while production rose 70% in the same period of time.

A reversal of what is taking place in the frozen groundfish fillet and steak export picture is occurring with blocks. Canadian production of frozen blocks of all species has not kept pace with exports (as evidenced by Table IV). Exports of blocks to the U.S. increased more than did production during the five years from 1974 to 1978. This has caused a rising ratio of exports to the U.S. to production, or a greater dependency on U.S. markets.

CONCLUSION

There has been concern over increased levels of U.S. imports of groundfish from Canada and their competitive effects on the New England groundfishing industry. As mentioned before, there were extraordinarily large increases in imports of various groundfish products into the U.S.; moreover, the percentage increases appear to have been higher into the New England region.

This increase in imports of frozen fillets and blocks is a disturbing sign for the U.S. While it was thought that the extension of the U.S. fishing limits in 1976 would help ease the U.S. fishermen's plight, the industry continues to suffer economically. To a large extent, it is commonly felt this is due to relatively unrestricted importation of fish, combined with an unwillingness by the U.S. government to offer financial aid to fishermen. This is a matter that may require further investigation.

Finally, when viewed over a longer period of time, few trends or patterns in exports and production are immediately evident. Yet while the ratios discussed in this report move up and down irregularly over the past ten or fifteen years, current levels of exports into the U.S. from Canada, as a percentage both of total exports and of Canadian production, seem to be similar to long run averages; that is, the high dependency of Canada on the U.S. market appears to be a long-term, continuing relationship. It may be in the best interest of Canada to keep this market, for without it, Canadian fishermen have fewer outlets for their fish and their incomes may suffer as a result. It is another question whether or not there needs to be action taken to improve the U.S.'s self-reliance in the frozen fillets and blocks markets. There are political factors involved, yet insofar as economics is concerned, what is desired is a market which is as free as possible--on both sides--in order to improve efficiency and product quality, and to provide the consumer with an adequate supply of fish at low prices.

Table I. U.S. Production, Imports, and Supply of Frozen Groundfish Fillets (in millions of pounds)

Year	Prod.[1]	Imports[2]	Change in Inv.[1]	Supply[3]	Canadian Imp.[4]	Canad. Imp. as a % of Prod.	Canad. Imp. as a % of Supply	Canad. Imp. as a % of Imp.
1970	12.1	203.7	- 0.1	215.9	92.8	766.9%	43.0%	45.6%
1971	9.1	184.4	+ 5.1	188.4	75.2	826.4	39.9	41.0
1972	9.1	250.4	-10.3	269.8	74.0	813.2	27.4	29.6
1973	14.6	264.7	-14.1	293.4	67.0	458.9	22.8	25.3
1974	14.4	200.9	+ 1.8	213.5	106.1	736.8	49.7	52.8
1975	9.2	256.1	- 8.6	273.9	116.3	1264.1	42.5	45.4
1976	9.1	N.A.	- 3.0	N.A.	116.9	1284.6	N.A.	N.A.
1977	N.A.	268.1	+14.9	N.A.	105.9	N.A.	N.A.	39.5
1978	18.5	279.8	- 2.0	300.3	130.4	704.9	43.4	46.6
1979	25.3	281.3	- 1.7	308,3	110.3	436.0	35.8	39.2

---

[1] NMFS, Current Fisheries Statistics

[2] NMFS, Fisheries of t[illegible]d States

[3] Calculated: Production + Imports + Change in Inventory

[4] NMFS, Resource Statistics Division

Table 11. U.S. Production, Imports and Supply of Frozen Blocks. All Species (in millions of pounds)

Year	Prod.	Imports	Change in Inv.	Supply	Canadian Imp.	Canad. Imp. as a % of Prod.	Supply	Imp.
1970	3.9	272.7	- 12.3	288.9	82.4	2112.8%	28.5%	30.2%
1971	6.2	311.2	+ 32.1	285.3	91.0	1467.7	31.9	29.2
1972	3.6	355.5	+ 13.1	346.0	64.6	1794.4	18.7	18.2
1973	9.9	358.7	+ 4.8	363.8	68.0	686.9	18.7	19.0
1974	4.4	266.1	- 4.9	275.4	35.7	811.4	13.0	13.4
1975	2.4	313.5	+ 3.3	312.6	38.6	1608.3	12.3	12.3
1976	1.7	378.7	- 17.9	398.3	54.4	3200.0	13.7	14.4
1977	2.0	385.1	+ 12.1	375.0	83.0	4150.0	22.1	21.6
1978	1.9	406.3	- 1.3	409.5	83.8	4410.5	20.5	20.6
1979	4.9	408.2	- 9.4	422.5	106.9	2181.6	25.3	26.2
1980	0.6	336.1[1]	- 15.8	352.5	102.6	17100.0	29.1	30.5

---

[1] NMFS, Fisheries of the United States

[2] NMFS, Current Fisheries Statistics

[3] Calculated: Production + Imports + Change in Inventory

[4] NMFS, Resource Statistics Division

Table III. Canadian Production and Exports of Frozen Groundfish Fillets & Steaks (in millions of pounds)

Year	Production[1]	Exports	Exports to U.S.	Exports to U.S. as % of Production	Exports to U.S. as % of Exports
1974	136.7	106.6	106.1	84.5%	99.6%
1975	145.9	117.1	116.3	79.7	99.4
1976	154.1	117.5	116.9	75.8	99.5
1977	151.8	109.0	105.9	69.7	97.1
1978	183.6	132.8	130.4	71.0	98.1
1979[2]	N.A.	158.9	135.0	N.A.	85.0
1980[2]	N.A.	138.0	128.9	N.A.	93.4

---

[1] Includes Atlantic fisheries only (in 1977-78 this accounted for over 97% of total Canadian production)

[2] Excludes cusk, hake and pollock

Source: Fisheries and Oceans Canada, Annual Statistical Review of Canadian Fisheries

Table IV. Canadian Production and Exports of Frozen Fish Blocks (in millions of pounds)

Year	Production[1]	Exports	Exports to U.S.	Exports to U.S. as % of Production	Exports to U.S. as % of Exports
1974	52.5	36.3	35.6	67.8%	97.9%
1975	52.5	40.1	37.9	72.2	94.5
1976	71.2	54.6	52.1	73.2	95.5
1977	109.0	85.8	82.8	76.0	96.5
1978	113.9	91.4	88.8	77.9	97.1
1979	N.A.	118.8	114.3	N.A.	96.2
1980	N.A.	139.9	123.5	N.A.	88.3

---

[1] Includes Atlantic fisheries only (in 1977-78 this accounted for over 95% of total Canadian production)

Source: Fisheries and Oceans Canada, Annual Statistical Review of Canadian Fisheries

Table V. Canadian Production and Exports of Frozen Fillets & Steaks, All Species (in millions of pounds)

Year	Production[1]	Exports	Exports to U.S.	Exports to U.S. as % of	
				Production	Exports
1974	160.3	118.2	107.8	67.2%	91.2%
1975	177.8	150.4	119.0	66.9	79.1
1976	212.2	165.7	119.6	56.3	72.1
1977	226.6	202.6	110.2	48.6	54.4
1978	271.7	218.8	139.1	51.2	63.6
1979	N.A.	214.5	155.4	N.A.	72.5
1980	N.A.	207.5	138.6	N.A.	66.8

---

[1] Includes Atlantic fisheries only (in 1977-78 this accounted for over 95% of total Canadian production)

Source: Fisheries and Oceans Canada, Annual Statistical Review of Canadian Fisheries

Table VI.
New England Production, and Canadian Imports of Groundfish Fillets and Steaks, 1978-1980 (in millions of pounds)

-1978-

Species	Production[1]	Can Imp. into N.E.[2]			Change[3] in Inv.	Supply[4]	Can. Imports as % of Supply
		Fresh	Frozen	Total			
Cod	22.20	2.55	34.0	36.55	+ 5.21	53.54	68.3%
Cusk, Hake, Haddock and Pollock	29.15	2.54	15.80	18.34	- 3.47	50.96	34.0
Flatfish	25.70	0.47	48.0	48.47	- 1.34	75.51	64.2
Total	77.05	5.56	97.8	103.36	+ 0.40	180.01	57.4

-1979-

Species	Production	Can. Imp. into N.E.			Change in Inv.	Supply	Can. Imports as % of Supply
		Fresh	Frozen	Total			
Cod	29.89	5.26	40.25	45.51	- 0.72	76.12	60.0%
Cusk, Hake, Haddock and Pollock	32.19	2.67	17.0	19.67	- 0.76	52.62	37.4
Flatfish	27.98	0.73	47.23	47.96	+ 2.62	73.32	65.4
Total	90.06	8.66	104.48	113.14	+ 1.14	202.06	56.0

-1980-

Species	Production	Can. Imp. into N.E.			in Inv.	Supply	as % of Supply
		Fresh	Frozen	Total			
Cod	28.12	4.60	41.98	46.58	- 9.16	83.86	55.5%
Cusk, Hake, Haddock and Pollock	26.00	3.04	15.90	18.94	+ 1.58	43.36	43.7
Flatfish	27.88	0.48	38.07	38.55	+ 2.67	63.76	60.5
Total	82.00	8.12	95.95	104.07	- 4.91	190.98	54.5

---

[1] 1978-79, NMFS, Current Fisheries Statistics; 1980, calculated & using N.E. landings as proxy for production

[2] NMFS, Resource Statistics Division

[3] NMFS, blue sheets

[4] Calculated: Production + Imports + Change in Inventory

Table VII. New England Production and Canadian Imports of Groundfish Fillets and Steaks (in millions of pounds)

1st 6 months, 1980 - 1981

-1980-

Species	Production[1]	Can. Imp. into N.E.[2] Fresh	Frozen	Total	Change[3] in Inv.	Supply[4]	as % of Supply
Cod	7.98	3.41	20.90	24.31	+ 1.58	30.70	79.2%
Cusk, Hake, Haddock and Pollock	12.2	1.58	6.25	7.83	- 0.78	20.81	37.6
Flatfish	13.74	0.13	12.39	12.52	-11.76	38.22	32.8
Total	34.12	5.12	39.54	44.66	-10.96	89.74	49.8

-1981-

Species	Production	Can. Imp. into N.E. Fresh	Frozen	Total	Change in Inv.	Supply	Can. Imports as % of Supply
Cod	13.3	4.20	36.21	40.41	+ 2.67	51.04	79.2
Cusk, Hake, Haddock and Pollock	14.0	2.96	10.62	13.58	- 1.89	29.47	46.1
Flatfish	14.62	0.83	26.90	27.73	- 1.40	43.75	63.4
Total	41.92	7.99	73.73	81.72	- 0.62	124.26	65.8

---

[1] Calculated from NMFS, blue sheets, using N.E. landings as proxy
[2] NMFS Resource Statistics Division
[3] NMFS, blue sheets
[4] Calculated: Production + Imports + Change in Inventory

Table VIII. Canadian Exports of Selected Fish Products into New England, 1978-81 (in thousands of pounds)

Product	1978	1979	1980	% Change 1978-80
Whole, fresh:				
Cod	1,492	3,138	3,140	+110.5%
Cusk, Hake, Haddock, and Pollock	5,799	6,534	7,639	+ 31.7
Flatfish	1,514	2,790	2,215	+ 46.3
Total	8,805	12,463	12,994	+ 47.6
Filleted, fresh:				
Cod	2,548	5,259	4,605	+ 80.7
Cusk, Hake, Haddock, and Pollock	2,541	2,664	3,044	+ 19.8
Flatfish	472	730	480	+ 1.7
Total	5,561	8,652	8,129	+ 46.2
Filleted, frozen:				
Cod	33,991	40,251	41,980	+ 23.5
Cusk, Hake, Haddock, and Pollock	15,796	16,987	15,900	+ 0.7
Flatfish	47,965	47,231	38,071	- 20.6
Total	97,752	104,469	95,950	- 1.8
Blocks, frozen:				
Cod	61,877	86,009	82,258	+ 32.9
Haddock	2,116	2,252	2,496	+ 17.9
Pollock	1,593	740	1,890	+ 18.6
Flatfish	14,438	14,811	12,078	- 16.4
Total	80,024	103,812	98,722	+ 23.4

Table IX. Canadian Exports of Selected Fish Products into New England, (in thousands of pounds)

1st 6 Months, 1980-81

Product	Jan.-June 1980	Jan.-June 1981	% Change
Whole, fresh:			
Cod	2,523.3	4,258.3	68.8%
Cusk, Hake, Haddock and Pollock	3.573.3	7,165.9	100.5
Flatfish	297.8	797.0	167.6
Total	6,394.4	12,221.1	91.1
Filleted, fresh:			
Cod	3.405.5	4,199.5	23.3
Cusk, Hake, Haddock and Pollock	1,578.5	2,964.3	87.8
Flatfish	131.3	833.3	534.7
Total	5,115.3	7,997.1	56.3
Filleted, frozen:			
Cod	20,903.9	36,215.0	73.3
Cusk, Hake, Haddock and Pollock	6.252.0	10,616.6	69.8
Turbot	3,001.4	4,056.1	35.1
Other Flatfish	9,392.9	22,845.0	143.2
Total	30,550.3	73,732.7	86.4
Blocks, frozen:			
Cod	40,357.9	38,422.5	(4.8)
Haddock	1,193.3	6,559.3	449.7
Pollock	860.7	1,215.9	41.3
Turbot	766.8	1,621.5	111.5
Other Flatfish	2,977.1	4,277.6	43.7
Total	46,155.8	52,096.8	12.9

Source: NMFS, Resource Statistics Division

Table X. Canadian Exports of Selected Fish Products into the U.S., 1978-81 (in thousands of pounds)

Product	1978	1979	1980	% Change 1978-80
Whole, fresh:				
Cod	2,103	3,763	3,638	+ 73.0%
Cusk, Hake, Haddock, and Pollock	5,862	6,591	7,650	+ 30.1
Flatfish	1,750	2,872	2,459	+ 40.5
Filleted, fresh:				
Cod	3,896	8,251	6,794	+ 74.4
Cusk, Hake, Haddock, and Pollock	2,994	3,632	3,444	+ 15.0
Flatfish	750	1,186	1,044	+ 39.0
Total	7,639	13,069	11,282	+ 47.7
Filleted, frozen:				
Cod	35,450	43,367	53,807	+ 51.8
Cusk, Hake, Haddock and Pollock	16,283	17,696	16,646	+ 2.2
Flatfish	50,120	49,202	39,267	- 21.7
Total	101,853	110.265	109,720	+ 7.7
Blocks, frozen:				
Cod	65,555	88,875	85,580	+ 30.5
Haddock	2,119	2,254	2,506	+ 18.3
Pollock	1,609	795	2,162	+ 34.5
Flatfish	14,472	14,940	12,372	- 14.5
Total	83,755	106.865	102,620	+ 22.5

Table XI. Canadian Exports of Selected Fish Products into the U.S., (in thousands of pounds)

1st 6 Months, 1980-81

Product	Jan.-June 1980	Jan.-June 1981	% Change
Whole, fresh:			
Cod	2,829	4,484	58.5%
Cusk, Hake, Haddock and Pollock	3,584	7,178	100.3
Flatfish	437	1,038	137.5
Total	6,850	12,700	85.4
Filleted, fresh:			
Cod	4,896	5,143	5.0
Cusk, Hake, Haddock and Pollock	1.858	3,402	83.1
Flatfish	610	1,256	105.9
Total	7,364	9,801	33.1
Filleted, frozen:			
Cod	21,903	36,717	67.6
Cusk, Hake, Haddock and Pollock	6,568	10,821	64.8
Turbot	3,184	4,139	30.0
Other Flatfish	9,715	22,998	136.7
Total	41,370	74,675	80.5
Blocks, frozen:			
Cod	41,687	38,961	(6.5)
Haddock	1,204	6,644	451.8
Pollock	973	1,305	34.1
Turbot	782	1,626	107.9
Other Flatfish	3,015	4,278	41.9
Total	47,661	52,814	10.8

Source: NMFS, Resource Statistics Division

FINANCING
in the
B.C. FISHING INDUSTRY

A STUDY
for the
Marine Resources Branch
by
Foodwest Resource Consultants

AUGUST 1979

Canadian Cataloguing in Publication Data
Foodwest Resource Consultants.
Financing in the B.C. fishing industry.

Cover title.
ISBN 0-7719-8271-2

1. Fisheries - British Columbia - Finance. 2. Fisheries subsidies - British Columbia. 3. Fishery processing industries - British Columbia. 4. Fishery policy - British Columbia. I. British Columbia. Marine Resources Branch. II. Title.

SH334.F66 338.3'727'09711 C80-092005-8

APPENDIX A

GOVERNMENT FINANCING ON THE EAST COAST

INTRODUCTION

There is a vast difference in the approach to and funding of government assistance programs to the fishery of Eastern and Western Canada. Because the Newfoundland government has made a very strong commitment to the development of a viable fishing industry and because of the importance of the fishery to the provincial economy, it was chosen as a representative province for comparison of East and West Coast fishery financial assistance programs.

Because of the limited time frame for this report, the magnitude of assistance programs--nearly 200 available to the fishing industry in Newfoundland--and the various different forms of record keeping by program, the information presented in this chapter is as complete as possible, within these many constraints.

In order to carry out this research task, programs were reviewed under federal, federal-provincial, and provincial levels of funding. Under each level of funding, the purpose of the financing such as capital costs, working capital, manpower assistance, export and marketing, efficiency, and new product development and research will be pointed out. In this review it must be remembered that the major programs have been researched and that as many as possible of the minor ones are presented here. However, the list is not complete due to the previously mentioned constraints.

Programs were reviewed under assistance to fishermen, the processing industry, and the industry in general.

After a review of government financial assistance programs, the role of the banks in the Eastern Canadian fishery, with specific reference to Newfoundland, were documented.

An attempt was then made to compare the types of financial assistance programs of the two provinces. Finally, some suggestions on the relevance of Newfoundland programs was made. It must be borne in mind that this examination is by no means exhaustive.

FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Financial Programmes for Fishermen

The federal government provides a considerable number of financial assistance programs to the fishing industry. The major difference in the types of programs available is the resource subsidies available to fishermen to make up for shortfall in catch and/or income. There are programs dealing with bait, groundfish, salmon and gear loss. The Newfoundland bait program ensures a continuous fishing bait supply for commercial fishermen through a system of fifty-seven depots and units which purchase, freeze, store and sell bait. While bait is purchased at market price it is re-sold at a lower value.

Table A.1 gives a fairly clear indication of the federal assistance available to fishermen. The major portion is obviously subsidy programs and some assistance for capital construction. Manpower assistance is very limited.

Financial Assistance Programs for Processors

From Table A.2 it is clear that the major differences in financial assistance programs to the processors in the province of Newfoundland as compared to B.C. is the larger amount given out for capital construction and the significant subsidies. It must be borne in mind that in B.C. no money has been given as subsidies for processors.

Senior officials of Industry Trade and Commerce point out that the fishing industry in Newfoundland compromises 25 percent of PEMD approvals and 5/6 of EDP approvals. Figures of costs were unavailable.

Federal Financial Assistance to the Total Fishing Industry

Capital Costs and Related Activities Department of Fisheries - Small Craft Harbours Branch:

This Small Craft Harbours Branch of Fisheries Canada is given an annual budget of $5 million to provide for the administration, construction and maintenance of the small craft

TABLE A.1

Federal Government Financing Utilized by Fishermen by Purpose in Newfoundland.

Purpose	Period	Amount 000's	%
1. Capital Costs			
Fisheries Improvement Loans	Apr. 76-Mar. 77	670	
Fish Chilling Assistance			
Fishing Vessel Assistance	Apr. 76-Mar. 31/78	1,320	
Sub-total		1,990	
2. Working Capital			
FBDB		Nil	
3. Manpower		-	
4. Resource Subsidies			
Newfoundland Bait Program	1977-78	1,000	
Groundfish Subsidy	Apr. 76-Mar. 31/78	19,370	
Salmon ban	1977-78	295	
Gear Loss program (ice flows in 1974)	1974-Mar. 31/78	3,750	
		24,415	

Source: Financial Division, Fisheries and Environment Canada - Newfoundland Branch.

TABLE A.2

Federal Government Financing Utilized by Processors by
rpose in Newfoundland.

Purpose	Period	Amount 000's
Capital Costs		
Fish Chilling Assistance	76 - 78	1,000
RDIA	April 69-Dec. 31/78	15,599
SBLA		
		15,599
. Working Capital		
FBDB		
. Manpower Assistance		
Industrial Training Prog.	77-78	420
Manpower Training	77-78	1,900
		2,320
Exporting & Marketing	little -insignificant	
PEMD		
PPP		
Efficiency & New Product Development	no figures available	
EDP		
Design Assistance		
Subsidy Programs	April 76-Mar. 31/78	6,870
Groundfish Subsidy		9,000
Fisheries Loans Prog.	1969-74	15,870

harbour and marine facilities used by commercial fishermen, and recreational boaters in Newfoundland and Labrador. Besides the annual budget, this branch is also allocated $600,000 per year to provide support services for the Canada Works program, according to financial officials of the department.

Employment and Immigration Canada - Canada Works Program

In Newfoundland, the Canada Works program has assisted greatly in the construction of many Marine facilities such as wharves, breakwaters, slipways, etc. During the period April 1977 to January 1980, a total of $14,334,199 has been committed under this program, according to senior officials. It is interesting to note that, according to the Newfoundland Canada Works Statistics, the fisheries commitment is 26.4 percent of the total provincial allocation.

Research and Development (1) Department of Fisheries - Industrial Development Branch

This Branch initiates projects on its own or on a cost-shared basis with the province or the fishing industry to discover new stocks of fish or shellfish, and to introduce up-to-date equipment and techniques.

Fisheries Canada - Inshore Fish Handling System

Under this program, which has an objective of providing proper fish unloading and handling facilities in 200 designated communities throughout the province, a total expenditure of $13,000,000 is envisioned over a four year period. Under this program, the main landing site in each community will be equipped with at least the following facilities:

- 1 "Jib" crane with in line weighing scale
- 1 hopper
- 1 de-icer, if applicable
- 1 grading table and additional weighing scale
- a conveyor system to carry to fish to insulated boxes
- 1 pallet lifter
- 1 truck loading device

It should be noted that according to senior officials of the department, this is intended to be a cost recoverable program where a user fee will be levied. The user shall be classified as the person who buys the fish on the dock.

Fisheries Canada - Fishery Products Development:

There are two basic programs according to fishery officials under this program:

1. Mechanical production of light salted fish - $250,000 for 1978-79.
2. Experimental, catching, marketing, and processing of grenadier - $250,000 in 1978-79.

Federal - Provincial Financial Assistance Programs for the Fishery

The General Development Agreement signed in 1974 by the provincial and federal governments has made provision for the signing of different subagreements re: the development of the Newfoundland economy. Four subagreements dealing with the fishery and one dealing with rural development, of which fishery development is a segment, have been signed since 1974. Moreover, the Newfoundland and Labrador Development

Corporation has been established to promote the industrial development of small and medium-sized businesses in Newfoundland. It should be noted that the Department of Regional Economics Development (DREE) is the federal department responsible and that the Department of Intergovernmental Affairs and the Department of Fisheries are the responsible provincial bodies.

Capital and Related Costs

(a) Canada - Newfoundland Sub-agreements

(1) Canada - Newfoundland Subsidiary Agreement - Fisheries Marine Service Centre Program.

The objective of this agreement is to enable Canada and the Province to permit more extensive and effective use of multi-purpose boat technology. Wharves, service centre buildings, storage areas, and travelifts and/or synchrolifts are constructed or installed in various designated centres throughout Newfoundland. This agreement was in effect during the period October 15, 1974 to March 31, 1977 and a total of $12 million is committed under it. As this is based on a 90/10 federal-provincial share cost formula, the federal commitment is $10,800,000.

Canada - Newfoundland Subsidiary Agreement - Special Fish Plant Water System

The objective of this agreement is to help ensure quality maintenance of fish products and to improve fish plant processing capacity. This agreement was in effect for the period October 15, 1974 to March 31, 1977 and has a total cost of $6,130,000. The federal share is $5,517,000 according to the agreement.

Canada - Newfoundland Subsidiary Agreement on Inshore Fisheries Development

The objective of this agreement is to increase the per capita income of the inshore fishermen in Newfoundland and to increase employment and productivity in the processing sector. Under this program, program evaluation, development planning studies and projects dealing with the building and upgrading of community stages, cool storage facilities, and water supply systems for fish plants are undertaken. The total cost of this agreement is $11,761,000. The federal share is $10,584,000, according to the agreement.

Canada - Newfoundland Subsidiary Agreement on Rural Development

This agreement provides for two basic types of assistance: rural development incentives and rural development research and development program.

(a) Rural Development Incentives Program:

Under this program a maximum grant of $25,000 is available to an eligible business that establishes, expands, or modernizes its facilities for processing or manufacturing of primary resources; utilizes such resources.

Under the predecessor to these programs, ARDA III senior officials inform us that during the period March 1974 to March 31, 1978, grants to 27 fish plants totalling $289,000 were made. Moreover, under the ARDA III assistance to development associations program, 49 grants totalling $743,083 were made according to senior officials.

(b) Research and Development Program:

Under this program a maximum grant of $10,000 is available to an eligible project which has the objective of evaluating and/or demonstrating the

> viability of producing and marketing products that are not currently being commercially produced within the province.
>
> It should be noted that the Rural Development Subsidiary Agreement provides a total assistance of $18,300,000 - $14,600,000 as incentives; and $3,750,000 for research and development.

Canada - Newfoundland Subsidiary Agreement - Ocean Research and Development

This agreement has the objective of stimulating the development of marine technology within the province and fostering the establishment of marine ice-related industries and also of ensuring that the Newfoundland business community becomes fully involved in marine resources development in the adjacent ice-congested waters. This agreement shall be in effect from January 1, 1975 and shall terminate on March 31, 1979. The federal commitment is $4,419,072 or a total cost of $4,910,000.

Newfoundland and Labrador Development Corporation

This is a 50/50 federal provincial crown corporation set up in 1972 to provide assistance in loans, equity financing, management advisory services, and related services and assistance to small and medium sized business in the province. The maximum eligible capital cost of a project is $2,500,000 and the maximum loan repayment term is 15 years. Funds are available for capital costs for establishment, expansion or modernization of business.

According to the 1977-78 Annual Report, the fishery accounted for 57.40 percent of total loan and equity approvals by sector for that year. This is a significant increase from the 29.4 percent NLDC loan and equity approvals by sector five

Table A.3

Federal Provincial Assistance Offered to Fishing Industry in Newfoundland.

Category	Amount	%
Capital Costs		
Fisheries Marine Services Centres	12,000	
Fish Plan Water System	6,130	
Inshore Fisheries Develop	11,761	
Rural Development Ag. Incentives	14,600	
ARDA III Incentives	273	
Assoc.	743	
NLDC	12,923	
Sub-Total	58,430	87.9%
Research and Develop.		
Ocean Research and Develop.	4,419	
Rural Develop. Sub Ag.	3,750	
Sub-Total	8,241	12.1%
Total	66,671	

year total ended March 31, 1978. Senior officials predict that in 1978-79, the fishery will account for 75 percent of NLDC funds. According to NLDC financial statistics 13 million dollars in assistance has been offered to the fishing industry during the period 1972 to December 31, 1978.

PROVINCIAL ASSISTANCE PROGRAMS FOR THE FISHERY

According to senior officials of the department of fisheries, provincial financial assistance to the fishing industry by way of direct loans, loan guarantees, etc. during the fiscal period 1967-68 to 1976-77 totalled $42.5 million. Table A.4 gives a more accurate illustration of this situation.

The Newfoundland Minister of Fisheries, the Honourable Walter Carter, at a Fisheries Conference in November 1978 announced a provincial commitment of $250 million over the period 1979 to 1985 to develop the Newfoundland fishery to its potential. According to the White Paper on Strategies and Programs for fisheries development to 1985, the province of Newfoundland takes the following position on future industry development.

> "Prosperity within the fisheries sector will not be guaranteed by the restoration of fish stocks and increased domestic access to larger volumes of fish. Equally important in terms of ongoing viability within the fishing industry, are such factors as market stability and harvesting and processing sector efficiency. These are necessary prerequisites to permit the generation of sufficient internal economic returns to promote and sustain progressive fisheries development initiatives."

Assistance to Fishermen

The development policy objectives re: harvesting are stated in the White Paper on Strategies and Programs for Fisheries Development to 1985 are as follows:

Table A.4

Newfoundland Provincial Financial Assistance to Fishing Industry 1967-68 to 1976-77.

Type of Assistance	Amount 000,000's
Direct Loans	6.7
Government Loans	12.7
Share Investments	.5
Loans Advanced by Newfoundland Industrial Development Corp.	22.6
Total	42.5

Source: Financial Division, Department of Fisheries.

1. The Development of sufficient capacity to harvest those available resources which are economic to harvest.
2. Fishermen be provided the opportunity to earn fair and equitable returns on the labour and capital they invest in the fishery.
3. The creation of an environment in which subsidization of the harvesting sector will become unnecessary and in which its economic viability will be assured.
4. The development of a corps of professional and independent fishermen.
5. A reduction of seasonality in the inshore harvesting sector and a progressive reduction of the necessity for fishermen to seek alternate employment during the off-fishing season.
6. Full support for the highly decentralized inshore fishery which maintains the Province's existing and rural structure.

The following provincial government programs are provided to fishermen in an attempt to assist them to meet the stated objectives. These will be documented according to purpose.

Capital Costs

1. Inshore Fishing Gear Program:

   This program is composed of two sections: the program for new entrants and the fishing gear supplement.

   The new entrant program can be further subdivided into three sections: first time entrants; entry from boat to long liner and entry into a developing fishery. Recently the first time entry program has been cancelled because, according to senior department officials, it was encouraging inefficiency. The two other sectors of the program are still in existence. During the 1977-78 fiscal year, the program for new entrants committed $250,000. A similar commitment for 1978-79 is envisioned, according to senior officials.

The objective of the fishing gear supplement program is to assist fishermen with the cost of the maintenance and replacement of gear under normal circumstances. This program is based on fish landings and is estimated that it will cost $1.3 million during the 1978-79 fiscal year. This entire inshore fishing gear program is thus estimated to cost $1.8 million during 1978-79.

2. Fisheries Loans Board Loans:

Loans are available for the following purposes:

- building of new boats 18 feet and over;
- purchase of second hand boats 18 feet and over;
- acquiring new engines;
- buying certain approved types of fishing equipment;
- conversion of boats from one fishery to another;

The present terms for the loans introduced in 1977 are as follows:

- 5 percent downpayment.
- interest rate of 3 1/2 percent with no repayment requirement for two years.

A 15 percent downpayment was previously required. According to financial statistics from the Fisheries Loan Board, during the fiscal period 1951-52 to 1977-78 5,631 loans for a total of $34,722,022 have been made. During the period

April 1, 1977 to November 30, 1978, loans for the amount of $24,776, 768.60 have been made according to FLB statistics. As is clearly noted, the provincial government is expanding its activity in the industry.

3. Fisheries Loan Board - Bounties Program:

   Three types of bounties are paid under this program:

   (a) Grants of 15 percent on the overall cost of buying a boat, 10 to 150 tons.

   (b) Grants of 35 percent on vessels 18 feet and over.

   (c) Grants of 35 percent of approved repair cost of vessels 12 years and over. According to Department statistics, a total of 4,161,000 was paid out during the period April 1, 1967 to March 31, 1977. During the 1977-78 fiscal years the following amounts were spent on the above programs as shown in Table A5.

SUBSIDY PROGRAMS

Department of Finance

This department administers two programs that assist fishermen. These are:

(1) Fuel Tax Exemption - 28¢ gallon.
(2) Fishing Gear Retail Sales Tax Exemption.

According to senior officials the annual costs of these programs are 8.1 million.

Newfoundland Fisheries - Gear Insurance

This program is proposed to commence in April 1, 1979.

Table A.5

ewfoundland Fishing Bounty Program 1977-78.

Program	Amount	%
) (10 to 150 tons)	110,000	17.7
) (18 feet and up)	499,813	80.5
) Repair	11,171	1.8
Total	620,984	

Source: FLB Financial Division.

The province's incentive for longliner construction is quite onounced.

Subsidy Programs:

) Department of Finance

This department administers two programs that assist fishermen. These are:

(1) Fuel Tax Exemption - 28¢ gallon.
(2) Fishing Gear Retail Sales Tax Exemption.

According to senior officials the annual costs of these programs are 8.1 million.

Newfoundland Fisheries - Gear Insurance

This program is proposed to commence in April 1, 1979.

Lobster Trap Construction Project

It is envisioned that these lobster traps will be constructed under the auspice of the Department of Social Services and will be made available at reasonable cost through a trap bank in 1979.

Working Capital - Counselling Service

There is no program for provision of working capital apart from FBDB and the province hopes to provide counselling re: raising of working capital.

Manpower - Training for Fishermen

The Newfoundland government realizes that the predicted growth of the Newfoundland and Labrador fishery is heavily dependent on the emergence of a corps of professional fishermen. This development will result in the availability of required skills in business administration, navigation and seamanship, electronics, equipment technology, fisheries biology and oceanography, quality control and fish conservation practices. The College of Fisheries will be expanding its training programs for inshore and offshore fishermen and will also be placing increased emphasis on food technology training requirements.

Other programs for the entire industry listed in section 3(c) of this chapter will also benefit fishermen.

Newfoundland Financial Assistance Programs to Processors

The White Paper on Strategies and Programs for Fisheries Development to 1985 outlines the following as the major policy objectives for the processing sector:

1. The development of an appropriate regional balance between processing capacity and harvesting capacity consistent with social and economic considerations.

2. The development of a competitive processing sector which will enhance the acceptance of the Province's fish products in various export markets.

3. The reduction, insofar as harvesting strategies permit, of the seasonality and underutilization of plant capacity.

4. The promotion of realistic levels of processing activity to ensure that maximum product values and maximum levels of employment are generated by any given volume of fish landings.

5. The provision of sufficient support infrastructure to facilitate the holding and distribution of fish landings and fish products, particularly during "peak" production periods.

In order to enact these policy objectives the Newfoundland government has enunciated the following programs. These will be described by category.

Besides the loans, loan guarantee, share acquisition, etc. programs mentioned at the beginning of this section, many other initiatives are outlined for processors in the White paper.

CAPITAL COSTS

Loan Deficiency Guarantees

The purpose of this program is to assist in the modernization or expansion of processing facilities. Financing is arranged through the private sector with a government guarantee. Should an operation fail, the government provides the difference between the amount recovered through receivership and the guarantee. According to the White Paper, $29 million has been guaranteed under the program during the July - November, 1978 period.

Leasing Fee Changes

Adjustments in the leasing arrangements of provincially owned fishing facilities as well as lease-purchase arrangements are contemplated. This will assist processing companies to acquire plants.

Department of Rural Development - Rural Development Authority - Loans Program

Under this program, interest free loans, up to a maximum of $20,000 for a period of five years are made available to resource based or processing industries to establish or expand their facilities. According to the financial division of RDA, during the period November 1972 to October 1978 the following activity has occurred in the fishery:

Boat Building	16	108,099
Fish Processing	51	601,275
Totals	67	$709,374

EXPORTING AND MARKETING

Newfoundland Department of Industrial Development - Market and Product Development Assistance Program

The purpose of this program is to provide marketing and product development assistance to companies which plan to market goods or services outside the Province or within the Province in order to displace goods and services being imported.

Assistance of a grant up to 50 percent of total cost to a maximum of $50,000 is permitted. In 1977-78, $6,137 was allocated to the fishery as a contribution to 5 small processing companies was paid to enable them to take part in a marketing mission to Europe in 1978 which was also cost-shared by the federal government and Air Canada. The 1978-79 budget of the program is $100,000, but according to senior officials, the interest in the program is very limited.

Product Promotion

In 1979, the province will launch a major fish product promotional compaign throughout Canada. Companies will be encouraged to participate.

NEW PRODUCT DEVELOPMENT

Department of Fisheries - Secondary Processing Incentives

It is proposed to increase the level of $50,000 to $150,000 for any single project. A loan of this amount would be made at Newfoundland prime plus 1 percent over a period of 8 years of which the first 2 years are interest free. Monies would be provided for the purchase of secondary processing equipment. During the 1978-79 fiscal year, $250,000 was expended on squid processing, canning, and splitting equipment, according to senior officials.

Production Machinery and Processing Technology Program

Under this program a fish processor receives a grant of 75 percent of the landed cost of equipment that is innovative or shows an advance in the state of processing technology. If the operation is successful, the individual is required to repay 2/3 of the grant. This program is growing quite quickly in utilization from $125,000 in 1976-77 to $350,000 in 1978-79 according to senior officials.

Financial Assistance Programs Directed at the Whole Industry

There is a great variety of programs directed at assisting the entire fishing industry in Newfoundland. These will be documented by purpose.

CAPITAL COSTS

Fisheries Department - Fish Handling Facilities

The purpose of this program is to provide community stages (fresh fish feeder facilities) at various locations around the province. According to department statistics, this program cost $840,000 in 1977-78.

Administration and Leasing of Fish Handling Facilities

The objective of this program is to ensure sufficient and adequate fish processing capabilities within the province. In 1977-78 the expenditures were $150,000 and the revenue was $25,000 for a deficit of $125,000. In 1978-79 the estimated expenditure is $315,000, and because of the sale of a provincial fish plant, the revenue was $480,000 for a surplus of $165,000, according to financial statistics.

Fisheries - Marine Facility Operations

The objectives of this program are to provide support services for the inshore longliner fleet. According to fishery statistics the 1977-78 expenditures were $635,000 in comparison with a $400,000 revenue. In 1978-79, the expenditures totalled $765,000 in comparison with estimated revenues of 450,000, making a deficit of $315,000.

Fisheries - Primary Landing and Distribution Centre

Fish landed by a fleet of offshore wetfish and freezer trawlers will be distributed in fresh form or held in cold storage facilities and then trucked to plants in a frozen form for processing. This facility is estimated to cost $61 million.

Ice-Making Capacity

About $1 million per year will be allocated to providing additional ice making facilities in Newfoundland.

Cold Storage Construction

Two large regional facilities totalling $7 million will be constructed to provide additional frozen storage capacity.

RESEARCH AND PRODUCT DEVELOPMENT

Fisheries - Fisheries Development Program

The objective of this program is to provide industry with the most suitable technological methods and to ensure the most profitable resource utilization and market diversification. Activities undertaken include fishing, technology research and development, inshore fishery enhancement, northwest coast herring development, market and product development, and general fishing industry development. According to officials of the department $3,012,600 was expended in 1977-78 and $2,689,600 is allocated for 1978-79.

Fisheries - Saltfish Sector

The province, in conjunction with the Canadian Saltfish Corporation and the private sector, will be undertaking measures such as improvements to processing and chill holding facilities in order to improve and increase the quality and quantity of saltfish production, according to the White Paper.

The Newfoundland government thus has spent a considerable sum on financial assistance programs for the fishery. This is summarized in Table A.6.

ROLE OF THE BANKS

The role of the banks in the fishing industry is very limited in comparison with that of the banks in B.C. One bank, the Bank of Nova Scotia, has 80 to 90 percent of the province's processors on its books and, according to senior officials, have approximately $60 million in outstanding loans in the whole industry.

All the banks interviewed expressed strong feelings regarding increased future participation and described promotional efforts they were undertaking to increase their hold in the industry. One bank was even considering employing an exclusive fisheries loans specialist.

There was unanimous agreement among banks regarding strong presence of government financial activity hindering bank lending practices.

One important factor to keep in mind is that the banks have no special perception of fishery development policy. It is treated the same as any other industry sector when loans are evaluated.

It was noted that senior bank officials are making serious efforts to become better acquainted with fishery policy and are even attending fishery association conferences and

TABLE A.6

Provincial Financial Assistance Programs Utilized by the Newfoundland Fishing Industry

Category	Period	Amount 000's	%
Capital Works			
1. Inshore gear program	1978-79	1,800	
2. Fisheries Loan Bd Loans	1978-79	24,777	
Bounties	77-78	621	
Sub-Totals		27,198	39
3. Rural Develop. Authority	72-78	709	
4. Fish Handling Facilities	77-78	840	
5. Marine Facility Operations	78-79	315	3
		1,964	
Working Capital			
Loans, loan guarantees, etc.	1967-74	29,860*	43
Export and Marketing			
1. Market and Product Development Assistance Program	1977-78	6	
Efficiency & New Product Development	1978-79		
1. Secondary processing initiatives		250	
2. Production Machinery and Process	1978-79	350	
3. Fisheries Develop. Prog.		2,690	4
		5,290	
Subsidy Programs	1978-79	8,100	11.8
Gasoline Tax			
		$70,418	

Source: Programs in Text

Totals

* Note: This is the amount outstanding as of March 31, 1978 - according to Public Accounts.

following the fishery closely through the media. Cases of intense bank competition over various clients were also discovered in the process of doing research for this project.

In conclusion, the banks are making a consistent and persistent effort to enter the fishery in Newfoundland.

Comparison of East-West Coast Financial Assistance Programs

Table A7 is a compilation of all financial assistance to fishermen in Newfoundland that has been utilized over the period under examination. It should be noted that subsidies account for nearly one-quarter of total funds - a situation that does not exist in British Columbia. It is also significant to note the greater commitment to new product development and research in Newfoundland as compared to B.C. Moreover, the Newfoundland provincial government has become significantly involved in provision of working capital to the industry.

In all cases, it must be remembered that the needs of the east and west coast are different but a comparison to programs for industry purposes still remains valid.

Moreover, it must be emphasized that the $250 million recently announced program is not included in the calculation since no funds have been spent to date.

Suggestions of Possible Relevant Programs to B.C. Fishery

The major programs that come to mind are the efficiency and product development programs and those to assist in provision of capital for processing and secondary processing. The following programs are referred to be relevant to B.C.

TABLE A.7

Total Financial Assistance Utilized by Newfoundland Fishery.

Category	Amount 000's	%
Capital Costs		
Fed Fishermen	1,990	
Fed Processors	15,599	
Fed-prov. ass.	28,539	
Prov. ass.	27,198	
Sub-total	75,318	44.6
Working Capital	29,860	17.9
Manpower Ass.		
Fed. ass.	2,320	1.2
Export and Marketing	6	
Prov. ass.		
Eff. & Prod. Develop.		
Federal programs		
Prov. programs	3,290	
Fed-Prov. programs	8,241	
Subsidy	12,531	7.7
Fed-fishermen	24,415	
Fed-processors	15,870	
Prov. - fishermen	8,100	
Sub-total	48,385	28.5
Total	$168,420	

Source: Refer to info in text.

Note: Infrastructure is not included in this table because it is not direct assistance to either fishermen or processors.

1. Market and Product Development Assistance Program.
2. Secondary Processing Initiatives.
3. Production Machinery and Processing Program.
4. Deficiency Guarantee Program.

It is interesting to note that comments arising in interviews with the fishing industry in Newfondland corresponded closely with industry comments in B.C. Research and new product development were clearly emphasized.

Table A.8

Total Financial Assistance Utilized by B.C. Fishing Industry.

Category	Amount 000's	%
Capital Costs		
Fishermen	12,156	
Processors	4,258	
Sub-Total	16,414	98.5
Working Capital		
Manpower	26	.5
Export and Market	109	1
Efficiency and New Product Development		
Total	16,549	

Source: B.C. Fishery Chapter

APPENDIX B

A GUIDE TO GOVERNMENT FINANCIAL ASSISTANCE PROGRAMS FOR THE B.C. FISHING INDUSTRY

INTRODUCTION

This guide provides general information on government financial assistance programs available to the B.C. fishing industry. Programs are categorized into categories:

1. Federal government programs available to fishermen.
2. Federal government programs available to processors.
3. Provincial government programs available to processors.

Anyone wishing to obtain government financial assistance should be cautioned that most government departments require formal application from eligible applicants prior to the applicant making financial or contractual commitments relating to the activity being financed. In addition, financial assistance programs are frequently changed and new programs are created so that the information in this guide should be confirmed and updated to ensure the best program is accessed or to ensure that an applicant is eligible for assistance.

FEDERAL GOVERNMENT PROGRAMS AVAILABLE TO FISHERMEN

Department of Fisheries - Fisheries Improvement Loans Act

The Fisheries Improvement Loans Act came into force in December 1955 for the purpose of facilitating the availability of intermediate and short term credit to fishermen for the improvement or development of fisheries enterprises. To this end, the Act authorizes the Minister of Finance to guarantee against loss term loans made to fishermen for the following purposes:

(a) the purchase or construction of a fishing vessel;

(b) purchase or construction of fishing equipment;

(c) major repair or overhaul of a fishing vessel;

(d) the purchase or construction of shore installations;

(e) the development or improvement of a primary fishing enterprise.

The maximum amount a borrower may have outstanding at one time is $75,000 and the maximum period of repayment may not exceed ten years. The rate of interest is usually bank prime plus 1 percent.

FOR FURTHER INFORMATION Contact

A fisherman seeking assistance should first discuss financial requirements with the manager of a lending agency.

FOR FURTHER INFORMATION Contact

Chief Guaranteed Loans Administration, Place Bell Canada
Ottawa, Ontario
K1A 0G5

Department of Fisheries - Fishing Vessel Insurance

The Department of Fisheries operates a low cost Fishing Vessel Insurance Plan under which any seaworthy fishing vessel valued at more than $500 may be insured for up to 100 percent of the appraised value of the hull and machinery, for partial or total loss. Optional additional coverage is available for electronic equipment and third-party liability through payment of an additional premium. The rate of the premium is fixed as a percentage of the insured value of each vessel. The rate varies on such factors as construction, age and equipment of individual vessels; the qualifications of the crew; the types of fishing activities engaged in by the vessel; the areas of fishing activity and other factors related to the anticipated risks. Rates are quite flexible.

FOR FURTHER INFORMATION Contact

Department of Fisheries and Oceans
1090 West Pender Street
Vancouver, B.C.

Department of Fisheries - Small Craft Harbours Branch

This Branch is responsible for the administration, construction and maintenance of the small craft harbours and marine facilities used by independent commercial fishermen and fish processors and recreational boaters in B.C.

This branch assists the fishing industry in B.C. greatly. One example of this assistance is the provision of materials and technical and mechanical support for the construction of projects under the Canada Works program.

FOR FURTHER INFORMATION Contact

Department of Fisheries and Oceans
1090 West Pender Street
Vancouver, B.C.

Employment and Immigration Canada - Canada Works Program

This program has an objective of creating employment in areas of high employment through the provision of worthwhile services or facilities to the community that do not duplicate or compete with existing services or facilities. The federal contribution to a project is based upon a contribution to the wages of those who work on the project and an allowance to cover expenses and employee benefits related to the projects operation and a portion towards materials and costs.

FOR FURTHER INFORMATION Contact

Your Local Canada Employment and
Immigration Office.

Federal Business Development Bank - Loans Program

The Federal Business Development Bank extends loans to fishermen for the purchases of boats and/or equipment as well as for working capital. The FBDB financing ranges from a few thousand dollars and upwards. The rate is usually 12 percent for loans up to $50,000 and 12 1/2 percent for loans over that mark. A further 1/2 percent is charged if a second mortgage is involved.

FOR FURTHER INFORMATION Contact

Your Local FBDB Office

Employment and Immigration Canada - Industrial Training Program

This program is designed to provide incentives to employers to stimulate the economy, to reduce unemployment and improve productivity through assisting employers to train their workers.

Any fisherman is eligible under this program providing that he is creating employment and paying or is willing to pay his worker a salary. The department then negotiates a contract with the employer in which the Department agrees to reimburse the employer for part of the salary of the trainee according to the following scale:

(a) 40 percent if the trainee is already employed;

(b) 60 percent if the trainee is unemployed;

(c) up to 85 percent if the employee is categorized as "disadvantaged".

FOR FURTHER INFORMATION Contact

Your Local Canada Employment and
Immigration Office

Department of Fisheries - Fish Chilling Assistance Program

In 1973, the Department of Fisheries introduced a program to assist fish processors in the construction of ice making facilities on shore through a grant of $25,000 for any one location. According to senior officials of the department, 21 grants totalling $467,562 for constructing ice making facilities were issued under this program, during the period March 1973 to March 31, 1976. This program was re-introduced for the 1977-78 and 1978-79 fiscal years with a maximum grant of $50,000. This program will be discontinued as of March 31, 1979.

FOR FURTHER INFORMATION Contact

Department of Fisheries and Oceans
1090 West Pender Street
Vancouver, B.C.

FEDERAL GOVERNMENT PROGRAMS AVAILABLE TO FISH PROCESSORS

Department of Regional Economic Expansion - Regional Development Incentives Act (RDIA)

RDIA was introduced in 1969 with the objective of creating improved opportunities for productive employment through the promotion of industrial and commercial development of processing and manufacturing in the slow growth regions of Canada. Fish processors are eligible to apply under this program to build new plants, modernize existing ones, or develop new products. If approved, a plant may qualify for a grant of up to 20 percent of approved capital costs, up to a limit of $6 million, for modernization or expansion. For the construction of a new plant or new product expansion, a grant is available for up to 25 percent of approved capital costs plus 15 percent of wages and salaries of direct jobs created. A ceiling of (a) up to 25 percent of approved capital cost and $5,000 for each direct job or (b) $30,000 for each direct job or (c) one-half of the total capital employed, whichever of the three is the lesser amount applies to this program.

FOR FURTHER INFORMATION Contact

Incentives - Department of Regional
Economic Expansion
Victoria, B.C.

Department of Industry, Trade and Commerce: Ministry of State for Small Business - Small Business Loans Act - SBLA

The Small Business Loans Act, a guaranteed loans program, was set up in 1964 and administered by the Department of Finance until April 1978 when it was taken over by the Department of Industry, Trade and Commerce. The objective of SBLA is to encourage economic activity through the provision of intermediate-term loans for new or existing small businesses.

Under this program, a manufacturer, wholesaler, retailer, service business, construction, transportation or communications entrepreneur can qualify for a loan up to a maximum of $75,000 guaranteed by the government at one percent over a commercial lending rate, for a 10 year term. Loans can be made for 80 percent of the cost, including installation of fixed or movable equipment and/or 90 percent of the cost of the purchase or construction of new premises or the purchase of land, or the renovation or improvement of existing premises.

FOR FURTHER INFORMATION Contact

Programs Branch
Department of Industry, Trade and
Commerce, Ottawa

Department of Fisheries - Industrial Development Branch

The Industrial Development Division conceives, plans, recommends, implements and administers fisheries development programs with the objective of expanding and economically developing the commercial fisheries of British Columbia. The branch can also offer consulting services to fishermen and processors in fishing technology and vessel development. The Industrial Development Division has also offered technical advice to other branches within the Fisheries and Marine Service. One instance is the assistance to the Special Economics Programs Branch in determining eligibility of fishing vessels for trawling licenses under proposed trawler licensing program.

FOR FURTHER INFORMATION Contact

Department of Fisheries and Oceans
1090 West Pender Street
Vancouver, B.C.

Department of Fisheries and the Environment - The Salmonid Enhancement Program

The basic objective of the Salmonid Enhancement Program is to increase salmonid production by up to 190 million pounds per year. This is a multiphase program. The first phase is to last five years during the period 1977-78 to 1981-82 is estimated to cost $150 million. According to the publication entitled "The Salmonid Enhancement Program" these funds will be allocated as follows:

Design construction and operation of fish production facilities - 79 percent

Biological-engineering feasibility and research, project evaluation, program direction, administration and planning - 18 percent

Public involvement and economic research - 3 percent

FOR FURTHER INFORMATION Contact

Department of Fisheries and Oceans
1090 West Pender Street
Vancouver, B.C.

Federal Business Development Bank - Counselling Assistance to Small Enterprises (CASE)

Counselling Assistance to Small Enterprises is a management counselling assistance programme sponsored by the Federal Business Development Bank. The objective of the programme is to assist owners and managers of business enterprises, particularly those of smaller size, to improve their methods of doing business through the counsel of retired businessmen.

Any proprietorship, partnership, or limited company that is established or about to be established, conducting virtually any type of business in Canada is eligible provided that:

(a) the enterprise does not have more than 75 full-time employees;

(b) the enterprise has had prior discussion of its problems with its appropriate business advisors.

The charge for CASE is $28 per seven-hour day for each counsellor assigned.

FOR FURTHER INFORMATION Contact

Federal Business Development Bank
901 Victoria Square
Montreal, Quebec
H2Z 1R1

or nearest FBDB office.

Federal Business Development Bank - Loans Program

The FBDB can extend financial assistance in the form of loans, loan guarantees or equity financing to new or existing businesses in the fish processing field which meet the FBDB eligibility criteria. The funds can be used for acquiring land, buildings or equipment; or to strengthen the working capital of a business, to establish a new business or for other purposes. According to FBDB officials loans up to $50,000 are usually given out at a 12 percent interest rate and loans over $50,000 are lent out at 12 1/2 percent. If a second mortgage is involved a rate of 13 percent or higher is usually charged.

FOR FURTHER INFORMATION Contact

Federal Business Development Bank
901 Victoria Square
Montreal, Quebec
H2Z 1R1

or nearest FBDB office.

Employment and Immigration Canada - Industrial Training Program

The Industrial Training Program is designed to provide incentives to Canadian business and industry to stimulate the Canadian economy, to reduce unemployment and to improve productivity through the expansion and improvement of employer-centered training.

All employers and employer associations are eligible to apply for assistance under this program, except governments and those agencies primarily financed from tax revenues.

The department negotiates a unique contract with an employer in which the Department agrees, for certain conditions and considerations, to reimburse the employer for costs incurred, such as:

(a) between 40 percent to 85 percent of the trainees' wages, depending upon the type of trainee and/or economic circumstances in the area;

(b) up to 50 percent for trainees travel and living expenses;

(c) up to 100 percent for the instructors' salaries, training aids, rental of equipment and premises, and the instructors' travel and living expenses; and

(d) up to 75 percent for outside course fees.

FOR FURTHER INFORMATION Contact

The nearest Canada Employment Centre

Employment and Immigration Canada - Institutional Training Program

The objectives of the institutional training program are similar to the industrial training program. There are four types of institutional training, all involving classroom activity. These are: skill training, basic training for skill development, language training and apprentice training. Besides paying for the training costs, allowances are given to provide income support and defray expenses of individuals who are undertaking institutional training courses. The amounts paid to trainees for these allowances depend upon such factors as the number of dependents and also the place of residence of the trainee in relation to the location of the training centre. The income support portion of the allowance ranges from $45 to $109 per week.

FOR FURTHER INFORMATION Contact

Your local Canada Employment Centre
Employment & Immigration Canada

Design, Canada, Department of Industry, Trade and Commerce - Design Assistance to Business

This program has the objective of improving industry efficiency and productivity through cost-shared product design and development programs and design advisory services. Design EDP provides foreign investment guarantees in the form of insurance against loss of or damage to a Canadian firm's investments abroad arising from expropriation, insurrection, revolution, war or inconvertibility. Almost any right that an individual or firm might acquire in foreign enterprise is eligible - including equity, loans, management or technical services contracts, royalty and licensing agreements.

Coverage may be extended only to new investments and is at present limited to those made in developing countries. The major criterion determining support is that the investor maximize the benefits to Canada and the host country. Normally, 15 percent co-insurance must be carried by the investor.

FOR FURTHER INFORMATION Contact

Design Canada, Department of
Industry, Trade and Commerce
240 Sparks Street
Ottawa, Ontario
K1A 0H5

National Research Council - Industrial Research Assistance Program - IRAP

The objective of this program is to increase new product development. Under IRAP, the National Research Council shares approximately 50 percent of the costs of selected research projects which are carried out by industry and which are of more than usual significance to the company's future and which hold some promise of making a significant contribution to the economic well-being of Canada.

FOR FURTHER INFORMATION Contact

National Research Council
Montreal Road
Ottawa, Ontario
K1A 0R6

Ministry of State for Small Business, Department of Industry, Trade and Commerce - Small Business Intern Program

Initiated in September 1978, this program is designed with the objective of creating permanent job opportunities for recent graduates and enhancing the growth potential and competitive position of small and medium-sized business by helping these firms hire recent graduates and enable young graduates to acquire practical experience in the small business environment. Under this program the federal government will pay 50 percent of a selected intern's wages, up to a maximum of $675.00 per month, for a period not exceeding welve months, providing that the new position be in addition o the normal work force of the employer. To be eligible, a ompany is required not to have more than three hundred employees.

FOR FURTHER INFORMATION Contact

Department of Industry, Trade and
Commerce, Regional Offices in
British Columbia
Suite 2743, Box 49178
Bentall Centre, Tower 3
595 Burrard Street
Vancouver, B.C.
V7X 1K8

Department of Industry, Trade and Commerce - The Enterprise Development Program

The objective of the Enterprise Development Program is to assist smaller and medium sized companies to become more viable and internationally competitive. In many cases, this program is referred to as the "efficiency program".

Manufacturers, processors and related services are eligible for support under EDP. However, it is intended that this program will not support firms with adequate financial resources or are able to receive debt financing elsewhere on reasonable terms and conditions according to EDP criteria.

Financial assistance is provided in the form of project cost sharing or term loan insurance up to 50 percent of eligible costs are shared for the following projects: proposal preparation, market studies, productivity improvement studies, product or process development, or industrial design. Term loan insurance for modernization or expansion of production systems, working capital or mergers and acquisitions can be provided for 90 percent of a term loan at a one percent annual fee.

FOR FURTHER INFORMATION Contact

Enterprise Development Branch
Industry Trade and Commerce
240 Sparks Street
Ottawa, Ontario
K1A 0H5

or nearest regional office in B.C.:

Suite 2743, P.O. Box 49178
Bentall Centre, Tower III
595 Burrard Street
Vancouver, B.C.
V7X 1K8

Department of Industry, Trade and Commerce - Promotional Projects Program (PPP)

The objective of this program is to promote the export of Canadian products and services. The program is an expression of federal initiatives in which Canadian industry is invited to participate.

This program includes a wide variety of trade promotional techniques within three general categories: trade fairs outside Canada, incoming and outgoing trade missions, and trade visitors (including incoming buyers and export oriented training). The total program is initiated by the Department and is based on consultation between industry Sector Branches, International Bureaux, Trade Commissioner posts abroad, and industry itself.

Assistance varies according to the promotion. A typical example is illustrated in trade fair promotions - assistance includes project management, exhibit design and construction, assistance in shipping products, and a publicity program. Each exhibiting company pays a nominal participation fee.

Fish processing companies with export capability seeking markets in other countries are eligible for assistance under PPP.

FOR FURTHER INFORMATION Contact

Promotional Project Branch
International Marketing, Department
of Industry, Trade and Commerce
240 Sparks Street
Ottawa, Ontario
K1A 0H5

Department of Industry, Trade and Commerce - Program for Export Market Development - PEMD

Established in 1971, PEMD is a major program of the Department of Industry, Trade, and Commerce. The objective of PEMD is to encourage established Canadian firms to enter new export markets and accept new competitive risks in existing export market aras. Such additional risks may be the result of the unusual size of a capital project venture, unusual international competition, new and unfamiliar market conditions and/or the need to use a consortium approach to meet opportunities abroad.

All Canadian firms, that is, incorporated companies, proprietorships or partnerships, and trading companies with an export capability wishing to expand their markets are eligible.

A variety of forms of assistance is available. In general; personnel costs, up to $70 per day, transportation costs, 50 percent of airfare, and special and unusual costs will be shared under the following incentive areas: capital project, market identification and/or adjustment, participation in trade fairs, incoming foreign buyers, and export consortia. Firms which succeed in developing export business under this program must repay the share provided by the Crown. Repayment is not required if sales are not generated.

FOR FURTHER INFORMATION Contact

Any Department of Industry, Trade and
Commerce Regional Office in B.C.:

Director
Suite 2743, P.O. Box 49178
Bentall Centre, Tower III
595 Burrard Street
Vancouver, B.C.
V7X 1K8

Export Development Corporation

The Export Development Corporation is a federally owned commercial enterprise that provides financial facilities to assist Canada's export trade. EDC provides credit insurance, loans, guarantees and other services.

EDC has very general powers to assist any firm in Canada (no matter how large or small) by providing credit insurance against nonpayment by foreign buyers of Canadian goods and services in almost any area of export activity. Nonpayment may arise from: insolvency of the foreign buyer, failure of the buyer to pay on due date, repudiation when the exporter is not at fault, blockage of funds or transfer difficulties, war or revolution in the buyer's country, imposition of trade restrictions not in effect when the transaction was made, losses arising through diversion of cargo, and the like. Whole-turnover policies are available for goods and services sold on credit terms of up to 180 days, and specific policies for transactions extending over a number of years. There is no minimum value for eligibility of coverage. EDC normally covers a maximum of 90 percent of the amount of loss, with the exporter required to assume the remaining 10 percent. To assist with export financing, proceeds of any loss payable under a policy may be assigned to banks or other financing institutions.

FOR FURTHER INFORMATION Contact

Export Development Corporation
110 O'Connor Street
P.O. Box 655
Ottawa, Ontario
K1P 5T9

In British Columbia, contact

Export Development Corporation
Suite 1293, P.O. Box 49024
Bentall Centre III
595 Burrard Street
Vancouver, B.C.
V6X 1C4

B.C. GOVERNMENT PROGRAMS AVAILABLE TO FISH PROCESSORS

British Columbia Development Corporation - Business Assistance Program

The British Columbia Development Corporation has a business assistance program with the objective of encouraging increased economic activity within the province of B.C. through the provision of direct loans or loan guarantees to businesses wishing to expand their operations or become established in B.C.

The following types of industries are eligible: manufacturing; processing; the provision of services to manufacturing or processing industries; publishing; and the development of tourism and recreational facilities.

The criteria for eligibility are:

1. commercial viability;
2. financial leverage should not exceed 70 percent on a proforma basis;

3. current ratio of assets/debts must be 1/1 or greater.

Under this program funds can be used for land, buildings, equipment or working capital. Depending upon the commercial viability and geographical location of a project, an interest rate of 1 1/2 to 3 percent over BCDC prime is assessed. No ceilings or floors exist on the loans. As a general rule loans for equipment are for a five to seven year term and loans for reality are given out for a term of seven years with an amortization of 25 years or the life of the project, whichever is less. BCDC also assists businesses through loan guarantees, equity participation, performance bonds and efficiency guarantees.

FOR FURTHER INFORMATION Contact

Business Assistance Division
British Columbia Development
Corporation
Vancouver, B.C.

British Columbia Development Corporation - Low Interest Loans Assistance Program - LILA

LILA was another of the financial assistance programs conceived under the Industrial Development Subsidiary Agreement and thus is only available outside the Lion's Bay - Rosetown and greater Victoria area. A total of $20 million was committed under this program for the period July 1977 to December 31, 1981.

The objective of LILA is to foster economic development in the processing and manufacturing sectors through the provisions of low interest loans.

Manufacturers and processors are generally eligible for LILA providing that:

(a) the project is economically viable;

(b) the project fosters further economic activity;

(c) the project is located outside of the Lower Mainland and Greater Victoria;

(d) the maximum pro forma financial leverage is less than 85 percent of a 1 to 1 working capital ratio.

LILA funds must be used for the acquisition of fixed assets, i.e. land, buildings or equipment during new plant construction, expansion or modernization. Loans at one-half prime now 5-1/8 percent are available for one-third of the capital cost of the project. The minimum amount of the loan is $30,000 and the maximum size is $250,000. No ceiling or floor exists on the amount of the eligible project.

FOR FURTHER INFORMATION Contact

Business Assistance Division
British Columbia Development Corporation
Vancouver, B.C.

Ministry of Economic Development - Market Development Assistance Program - MDAP

This is one of the chief marketing programs of the B.C. government and is administered by the Ministry of Economic Development. The objective of MDAP is to aid companies to investigate new market potential, appoint local agents or distributors or sell products directly. This program is tailored to assist those firms who may not find it advantageous or possible to participate in government led trade missions.

Any individual firm, trade association or group of firms whose product or services contain a significant level of B.C. contract is eligible. Assistance, however, can only be granted once per year.

Under MDAP, the Ministry will pay the return economy excursion air fare to a maximum of $1,500 for a company or association representative to undertake any of the following activities: to investigate new market potential, to appoint local agents or distributors or sell products directly. The project must form part of an overall marketing plan which promotes an expansion of the applicant's out of province business.

FOR FURTHER INFORMATION Contact

Ministry of Economic Development
Box 10111, 700 West Georgia Street
Vancouver, B.C.
V7Y 1C6

Ministry of Economic Development - Technical Assistance Program - TAP

Set up by the Ministry of Economic Development, the Technical Assistance Program has the objective of endeavouring to provide an incentive for companies to expand their facilities, diversify their product lines or enter new businesses. This program aids firms to undertake formal study of a specified aspect of their operation.

Both proposed and existing trade and industry companies may qualify for assistance under TAP.

Assistance can be granted only once per year. Prior approval must be received from the Ministry before any projects can be undertaken. Moreover, clear potential for a successful operation must be evident prior to ministry involvement.

Firms must undertake a formal in-depth study of a specified aspect of their operations using outside consultants to qualify under TAP. Studies can range from marketing to financing to production. Studies are conducted on a cost-sharing basis to a maximum total cost of $8,000. The Ministry will pay 60 percent of the first $2,000 and 50 percent of the remaining $6,000 or respective portions thereof.

FOR FURTHER INFORMATION Contact

Ministry of Economic Development
Box 10111, 700 West Georgia Street
Vancouver, B.C.
V7Y 1C6

Ministry of Economic Development - Incoming Buyers Program

This program is designed to assist firms in attracting buyers from markets outside the province. The application can be any individual, firm or a trade association whose products or services contain significant British Columbia content.

Assistance granted only once per year. Prior approval must be received from the Ministry before any projects can be undertaken.

Financial support offered by the Ministry consists of the return economy excursion air fare for the buyer to a maximum of $1,500.

FOR FURTHER INFORMATION Contact

Ministry of Economic Development
Box 10111, 700 West Georgia Street
Vancouver, B.C.
V7Y 1C6

MINISTRY OF AGRICULTURE/FEDERAL DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

Agricultural and Rural Development Subsidiary Agreement - ARDSA, Part IV

ARDSA is a joint federal provincial program signed in 1977 with the objective of encouraging the development of the agricultural sector and the food processing industry in rural British Columbia. This area of eligibility is defined in the agreement basically as all of the Province except Metropolitan Victoria and Vancouver.

Two sections of ARDSA apply to that sector of the food industry beyond the farm gate, namely Part I the Research, Planning, Training and Market Promotion and Part IV Support Services and Community Development.

The objective of the Processing for Value-added of Part IV of ARDSA is to encourage the development of the processing and value-added stages. This initiative is to provide more jobs in the agricultural sector and processing industry thereby improving stability and rural employment opportunities.

Private individuals, producer groups, corporation and co-operating located in the "rural regions" of B.C. as designated under ARDSA are eligible under this program to establish, modernize or expand value-added processing operations in rural communities. Eligible projects include facilities which enhance the value of food production such as packing and grading, and operations involved in the secondary processing of food products. Applications should demonstrate long-term viability. Value-added projects are also required to supply sufficient financial information on their operations. Moreover, consideration will be given to the effect on similar operations in the area, pollution and environmental controls, and general level of costs in the industry.

ARDSA assistance levels for new food processing or grading facilities are calculated on a formula of a maximum 25 percent of approved capital costs plus $5,000 for each direct job created by the facility; and not to exceed 50 percent of the approved capital cost of the project. Expansions and modernizations of food processing or grading facilities can be assisted up to a maximum of 20 percent of the approved capital costs.

ARDSA - Part I

The objective of Part I of ARDSA is to seek out and study opportunities for development. Research and planning are essential to identify and provide support for meaningful projects suitable under the agreement. Market promotion will increase demand for B.C.'s food products while training programs will strengthen the industry in management and production techniques.

The following list of sponsors, by type of project are eligible under Part I:

1. private agencies can applied for applied research research projects;
2. local committees, groups, co-ops, or corporations can sponsor feasibility studies;
3. producer groups or existing food processors can apply for market development projects;
4. producer groups, associations, agencies, or organizations concerned with processing or marketing are eligible for training programs.

The level of assistance from 25 percent to 100 percent is dependent on the circumstances of individual projects. Cost-sharing is negotiated with the applicant on the basis of need and the impact that the project may have on the rural agricultural sector.

FOR FURTHER INFORMATION Contact

ARDA Co-ordinator, ARDA Branch
British Columbia Ministry of
Agriculture, Legislative Buildings
Victoria, B.C.
V8V 1X4
387-5121 Local 256 or 248

or

Manager, Programme Implementation
Government of Canada
Department of Regional Economic
Expansion
414 - 1175 Douglas Street
Victoria, B.C.
V8W 2E1
388-3401

MINISTRY OF ECONOMIC DEVELOPMENT/FEDERAL DEPARTMENT OF ECONOMIC EXPANSION

Assistance to Small Enterprises Program - ASEP

Set up in 1977, and administered by the Ministry of Economic Development, the objective of ASEP is to encourage and assist the modernization, expansion and establishment of small industry by way of interest free forgivable loans. The total funds available under this program are $5 million over a five year period.

New and existing industries in the manufacturing and processing field or related repair facilities in B.C. located outside of the Lower Mainland (Lion's Bay - Rosetown perimeter) and southern Vancouver Island areas with sales not exceeding $500,000 for the two most recent years of operations can be considered eligible for ASEP. The proposed project must indicate commercial viability with approved capital costs not exceeding $60,000. If the applicant has previously received forgiveable loans, the aggregate of proposed loans and the portion of loans should not exceed $30,000. Moreover, applications for assistance should be received before commitments are made for buildings, machinery and equipment.

The extent of assistance available under ASEP for new facilities is: a) new manufacturing and processing facilities are eligible for 50 percent of approved capital cost, to a maximum loan of $30,000, b) new maintenance and repair facilities are eligible for 30 percent of approved capital cost to a maximum loan of $18,000.

For modernization and/or expansion the ASEP extent of assistance is as follows: a) existing manufacturing and processing facilities are eligible for 30 percent of approved capital costs, to a maximum loan of $81,000; b) existing maintenance and repair facilities are eligible for 30 percent of approved capital costs to a maximum loan of $18,000.

FOR FURTHER INFORMATION Contact

I.D.S.A.
c/o Ministry of Economic Development
Parliament Buildings
Victoria, B.C.
V8V 1X4

Fisheries
and [illegible]

News Release
Communiqué

NR-HQ-081-056E

FOR IMMEDIATE RELEASE
Friday, October 9 1981

$7 MILLION FOR P.E.I. FISHERIES DEVELOPMENT

OTTAWA - The Government of Canada will invest approximately $7 million in fisheries development programs on Prince Edward Island over the next three years, in conjunction with Phase III of the Federal-Provincial Comprehensive Development Plan. Programs will be implemented by the Department of Fisheries and Oceans.

Fisheries and Oceans Minister Roméo LeBlanc said today that some $600,000 will be spent during the balance of the current fiscal year, and the remainder will be allocated in fiscal 1982-83 and 1983-84.

The Minister said the funds will be used for various projects designed to improve the stability and viability of the fishing industry. Specific programs and projects will be developed following consultation with a local advisory committee, composed of representatives of fishermen, processors, the provincial government, and the Department of Fisheries and Oceans.

Mr. LeBlanc said that particular emphasis will be placed on development opportunities uniquely adaptable to Prince Edward Island conditions in such fields as cost-reducing technology in harvesting, aquaculture, resource management, and fish quality improvement. The Minister said a major theme of these programs is economic self-determination of the inshore fishing communities of the Island.

.../2

A major program to be initiated in the current fiscal year will provide financial assistance to upgrade fish canneries and processing plants to comply with the standards of the department's extensive campaign to improve the quality of Canadian fish and fish products. Grants of up to 5 per cent of approved capital costs (a maximum grant of $50,000 per plant) will be available under this program. It is estimated that $250,000 will be allocated in the current fiscal year.

A pilot program to introduce dockside or point-of-sale grading of fish will cost an estimated $75,000. This project will involve the hiring of graders, in cooperation with fishermen and processors, to undergo a training period prior to the introduction of voluntary dockside grading in 1982-83 as part of DFO's fish quality improvement program.

Some $125,00 has been allocated for aquaculture projects which include an experimental mussel harvesting program. Mussels are traditionally fished during warm weather, and the experimental program will determine the feasibility of harvesting the shellfish through the ice. The artificial culturing of mussels on P.E.I. has shown positive results, including superior quality and improved meat yield. This project will attempt to reduce the seasonality of the operation.

A review will be conducted of the existing fishing fleet to determine how vessels can be made more energy efficient. This program, to cost an estimated $30,000, will help to identify the most suitable type of inshore vessel for the province's various fisheries.

Technical assistance and special studies of various aspects of the Island fisheries will cost an estimated $50,000. This work will include such studies as an examination of the decline in Northumberland Strait lobster and other species.

Program implementation, which includes salaries, operating and maintenance expenses, is expected to cost approximately $70,000 in the current fiscal year.

.../3

Mr. LeBlanc said the fishing industry is vitally important to the Prince Edward Island economy, and the funds allocated under the Development Plan emphasize his department's commitment to ensuring that the industry will continue to be a major economic contributor.

Specific details of projects and programs are available through the office of the Area Director, Department of Fisheries and Oceans, Albert Thomas Building, Riverside Drive, P.O. Box 1236, Charlottetown, P.E.I., (902) 892-5346.

- 30 -

FOR MORE INFORMATION:

Peter Meerburg
Fisheries and Oceans
Communications Branch
Ottawa, Ontario
K1A 0E6
(613) 995-2075

DOMESTIC AND INTERNATIONAL
FINANCIAL ASSISTANCE PROGRAMS
FOR THE FISHING INDUSTRY

William MacKenzie
Office of Policy and Planning
National Marine Fisheries Service
April 1980

I. INTRODUCTION

A major impetus for extended fisheries jurisdiction was that it would permit more rational management of what had been common property resources and that it would provide a more hospitable climate for domestic fisheries development. Whether or not these objectives are being achieved is open to question. What is clear, however, is that extended jurisdiction has brought with it changes in national and international financial assistance programs to assist the fishing industry's adjustment to the 200-mile era, to protect various fisheries constituencies from economic dislocation, and to stimulate the expansion of existing fisheries and the development of new ones. The financial assistance programs are not all in the form of direct pecuniary aid to private undertakings. This is particularly the case with indirect assistance in the form of tariff and non-tariff barriers to fisheries imports, national government market research, product promotion, scientific research and regulation of foreign fisheries. To illustrate the latter, fees charged to foreign fishermen for access to coastal state 200-mile zones are a form of assistance to the domestic industry in that they add to foreign production costs and thus can increase the competitiveness of domestic harvests in the world market. Domestic fisheries can also be aided by laws which limit foreign investment in the domestic fishing industry or prohibit foreign vessels from landing their catches in the coastal states' ports. A review of the legislation of various countries, including the United States, would reveal numerous instances in which that legislation indirectly benefits the domestic fishing industry. In addition to national financial assistance programs, international programs under the auspices of such organizations as the European Economic Community (EEC) Commission, FAO, the Asian Development Bank, and the U.S. Agency for International Development also contribute to fisheries development.

The following material summarizes the range of domestic and international assistance programs in place before and after the rush of unilateral 200-mile zone declarations. In some cases the available information is limited, particularly regarding 1980 programs. Nevertheless, the information which could be obtained illustrates the major thrust of financial assistance programs.

C. CANADA

The Federal Government and Provicial Governments of Canada provide a variety of financial assistance programs to the Canadian fishing industry. In the late 1960s, the largest direct Federal assistance programs focused on the following areas:

- provision of 35-40% of approved costs for construction of fishing vessels for use off the Atlantic coast;
- federal guarantees for private loans to fishermen for financing acquisition or repair of vessels, equipment, and shore installations;
- fisheries price support programs in the form of deficiency payments to fishermen and processors when prices dropped as a result of sudden marketing difficulties;
- federal insurance against vessel losses. [3/]

In the early 1970s, the Canadian fishing industry encountered severe economic difficulties and the Government began to study ways to rehabilitate the industry in the face of depleted stocks, depressed markets, and sharply increasing energy costs. To bridge the period to rehabilitation, Atlantic groundfish fishermen were given assistance payments of 2 cents a pound for landed groundfish and processors were given up to 6 cents a pound for eligible groundfish products. In addition, special payments were made to different regions of Atlantic

---

[3/] See, Power & Stolting, Canadian Fishing Vessel Financial Aids, Vols. I and II, U.S. Department of the Interior, 1967.

Canada. For example, in Newfoundland up to $2300 per sea day, less the actual catch value per sea day, was paid to trawlers fishing in certain ICNAF areas. These conditional grants to processors ended on March 31, 1977, and the payments to fishermen ended on September 30, 1978.

Other rehabilitation programs included a 1973 Fish Chilling Assistance Program. Under this program assistance of up to 50% of the cost, not to exceed $25,000 per facility, was paid by the Canadian Government for additional ice-making and ice-storage facilities at processing plants and for refrigeration on fishing vessels. In 1974, the Government spent approximately $15 million on working capital loans and assistance for inventory financing and product promotion, and another $20 million to keep the groundfish industry in operation during the winter months through assistance to fishermen and processors. In 1975, the Federal Government put into effect a $51 million subsidy program to support groundfish fishermen and processors and assist in solving marketing problems.

A report prepared by the University of Rhode Island in 1977 spelled out the essential elements of Canadian subsidies to the groundfish industry at that time. [4] The report grouped the financial assistance programs into three main categories:

- grants available for fixed assets such as vessels or processing plants;

---

[4] Dirlam, J.B., Subsidies to Canadian Groundfish Industry-Background Information for Countervailing Duty Assessment, University of Rhode Island, 1977.

- subsidies dispensed in cents per pound payments for fish harvested or processed; and
- loans or loan guarantees available at lower interest rates or in larger amounts than would otherwise be available in a private market.

Table 4, which provides a list of the Canadian subsidy programs in 1977, shows that they were substantial and pervasive. Some of the Canadian subsidies were paid directly by the Federal Government, such as those paid by the Fisheries Price Support Board. Other subsidies were provided by the provincial governments in the form of fishermen loans and grant programs for construction and procurement of vessels and equipment. Interest rates and terms and conditions of these loans, loan guarantees, and grants varied from province to province.

Table 5, excerpted from the University of Rhode Island Report, illustrates the nature and effect of subsidies at different levels of the Canadian fishing industry in 1977.

In April 1977, the Canadian Federal Government announced the comprehensive program of subsidies for the fishing industry during 1977/78.[5/] The program emphasized relief for fishermen of the inshore fishing fleet. Budget authorizations were somewhat less than in the previous two years. In the Atlantic region, the Government announced its intention to reduce the levels of financial assistance below those

---

[5/] The 1977-78 Canadian subsidy program is described in IFR-78/103, Candian Subsidies to the Fishing Industry, Office of International Fisheries Affairs, National Marine Fisheries Service.

TABLE 4

Subsidy programs for Canadian groundfish industry

1 Source of Subsidy	2 Applicable Statute or Regulations	3 Date of First Program	4 Type	5 Activity Subsidized	6 Maximum Available	7 Major Prerequisites & Terms	Fiscal '73-'74	8 Amount Paid Out Fiscal '74-'75	Fiscal '75-'76	Est. Appropr. Fiscal '76-'77
VESSEL CONSTRUCTION AND REPAIR										
FEDERAL GOVERNMENT 1) Dept. of Environment, Fisheries & Marine Service	Fisheries Development Acts	1963	Grants	Construction excluding gear	35%	To owners, 1966-69: vessels up to 65'; 1970-75: vessels 35'-75'; 1970 minimum length 30' *	$0.8 million	$3,077,000 201 Atlantic vessels	$3,575,450 251 Atlantic vessels	$4 million
2) Dept. of Industry, Trade & Commerce Transportation Industries Branch	Ship Construction Subsidy Regulation, Shipbuilding Temporary Assistance Program, Shipbuilding Industry Assistance Program	1970	Grants	Construction	25% to 1970, 17% in 1970, 1% less each year until 1981	To builders of fishing vessels over 75'	$5 million 8 trawlers	$6 million 5 trawlers	$5.8 million 10 trawlers	$4.7 million 4 trawlers
3) Dept. of Finance, Guaranteed Loans Administration	Fisheries Improvement Loans Act	1955	Loan Guarantees	Purchase, construction, gear, shore installation	$50,000/fisherman	10 yr. repayment Annual installments Maximum rate (3/75) 10%	NA	$2,100,540 (In Atlantic Provinces)	$3,000,123	NA
PROVINCES 4) New Brunswick, Fishermen's Loan Board	Fishermen's Loan Act	NA	Loans	Construction, repair, purchase	75% net cost after subsidy	8% interest	$4.3 million 63 boats (offshore)	$4.8 million 88 boats (offshore)	$4.5 million 84 boats (offshore)	NA
5) Newfoundland, Dept. of Fisheries, Fisheries' Loan Board	Fishing and Coastal Vessels	1955	Grants	Construction, rebuilding repairs	$200/gross ton	Boats 10-100 tons, under permit	NA	NA	NA	NA
6) Nova Scotia Fisheries Development Board	Fishermen's Loan Act	NA	Loans	Construction, purchase, conversion	75% net cost after subsidy	7 1/2% on boats, 8 1/2% on engines	$1.3 million 7 boats	$1.4 million 12 boats	$1.8 million 20 boats	NA
7) Prince Edward Is. Lending Authority	Crown Corp. Est. 1969, Fishermen's Loan Act	1969	Loans	Construction & purchase	16% - 30%	Subsidized vessels receive lower loan, 15% cost, 8.5% interest rate (3-31-75)	Fixed capital; $105,000 24 loans	Fixed capital, $[illegible] 10 loans	Fixed capital, $300,481 24 loans	NA
8) Quebec Dept. of Commerce, Commercial Fisheries Branch	NA	NA	Grants	Construction & repair	$15,000 to shipbuilder 12 to 35 60%	30' - 45.0'	NA	$3.3 million	NA	NA
			Loans	Construction & repair		New boats or conversions	NA	NA	NA	NA
HARVESTING OPERATIONS										
FEDERAL GOVERNMENT 9) Dept. of Environment, Fisheries Prices Support Board	Fisheries Prices Support Act, "Budgetary Allocations" to Dept. of Environment, Temporary Assistance Program (1975-1977)	1947, 1975	Payments (Grants)	Fish handling	2.0¢ per lb landed weight reduced to 1.0 ¢ per lb. (1976)	First quality groundfish, not in excess of 1974 (10%) landings	NA	NA	$20,879,300	$44 million credits fiscal '77 for harvesting & processing $1,151,140 [illegible]
10) Fisheries & Marine Service	Budgetary allocations from Dept. of Environment	1970	Grant	Vessel operation	NA	Groundfish caught outside Gulf of St. Lawrence	NA	NA	NA	NA
11) Fisheries & Marine Service	Budgetary allocations from Dept. of Environment	1970	Grant	Vessel operation	NA	Fishing by Newfoundland in new areas for traditional species	NA	NA	NA	NA
12) Fisheries & Marine Service	Budgetary allocations Fisheries Development Act	1963	Grant	Fish chilling and storage	60% cost	Up to $25,000 per facility	NA	$3,000,000	NA	NA
13) Fisheries & Marine Service	Budgetary allocations from Dept. of Environment	NA	Grant	Vessel insurance administration	NA	NA	NA	NA	NA	NA
14) Fisheries & Marine Service	Union terms, Newfoundland, Canada	1973	Grant	Bait service	87 1/2%	Available in Newfoundland	$700,000	NA	NA	NA

TABLE 5 Nature and effect of subsidies at each level of groundfish industry

	SUBSIDIES	EFFECT
PYARDS	Federal grant for performance improvement	Makes shipyard services available at lower price
VESSEL CONSTRUCTION, MODERNIZATION, CONVERSION, REPAIR, PURCHASE	Grants, loans, loan guarantees by federal and provincial governments	Substantially reduces required investment in fishing vessels; raises proportion of new, efficient vessels
HARVESTING	Bait, insurance, fuel	Reduces current operating outlays
FISH OLING	Federal and provincial payments to vessel owners per pound of first quality fish landed	Increase supply and lowers price of first quality landed groundfish
LANDING FACILITIES	Federal and provincial matching grants for landing, including haul-out, etc., facilities	Reduce required outlays by fishing vessels
PROCESSING PLANT CONSTRUCTION, MODERNIZATION AND EXPANSION	Grants, loans, guarentees by federal and provincial governments for plants and infrastructure	Substantially reduces required investment in processing plants, raises proportion of new, efficient plants
FISH PROCESSING	Paid per pound, fresh and frozen fillets and blocks	Reduces margin necessary to break even on processing. Increases supply of fresh fillets, frozen fillets and blocks

of recent years and to shift the emphasis of the subsidy programs from "rescue" to "rebuilding." Between mid-1974 and March 1977, the Government had budgeted about C$130 million for special assistance, mainly to support the ailing Atlantic groundfish fleet. For fiscal year 1977-78, the fisheries rebuilding program announced on April 20, 1977 was authorized to spend C$41 million with emphasis on improving the profitability of the inshore fisheries and making modest efforts to develop the capacity of the offshore fleet. The current program benefited primarily coastal fishermen who operated approximately 25,000 small and medium-size vessels along Canada's Atlantic coast. The main programs of the FY 1977-78 assistance plan were as follows:

(1) increasing the value of landed fish with such programs as a four-year, C$13-million plan (of which C$3.6 million to be spent in the current fiscal year) to provide new offloading facilities in 200 Newfoundland fishing communities;

(2) developing new grounds and new species, primarily off Labrador and northern Newfoundland (funded at C$3.6 million);

(3) subsidizing the refitting of the fishing fleet, especially the redfish trawlers in the Gulf of St. Lawrence, to make it capable of fishing for more than one species;

(4) promoting export marketing, with a priority for underutilized species, such as dogfish, lumpfish, skate,

squid, and seal products.

The Department announced that "conditional grants for processors of frozen groundfish for export will still be available whenever monthly analysis proves the need." The Department emphasized, however, that this direct export subsidy would total only about one-half of 1976 subsidies and one-third of those in 1975.

Canadian aid programs for the fishing industry are to a significant degree regional assistance plans, mainly due to the fact that fishing is often a traditional, labor-intensive industry, sometimes in an economically depressed area. The two most important and by far most expensive subsidy programs being considered by the Canadian Government in 1978 fell in this category. They were:

(1) a C$900 million assistance program, aimed primarily at fleet development in the Atlantic region;

(2) a 15-year C$400 million Salmonid Enhancement program which would benefit British Columbia almost exclusively.

In July 1978, the U.S. Treasury Department published in the Federal Register a Notice of its initiation of a countervailing duty investigation concerning the exportation of certain fish from Canada. That notice classified certain benefits granted by the Government of Canada to fishermen and processors as programs preliminarily determined to constitute a bounty or grant within the meaning of the U.S. countervailing duty statute. Those programs were:

(1) Direct payments to fishermen by the Federal Government under the Groundfish Temporary Assistance Program (GTAP)

which remained in effect for groundfish harvested by inshore fishermen.

(2) Cash assistance to fishermen for the construction or modification of vessels.

(3) Grants provided by the Department of Regional Economic Expansion (DREE) to the province of Newfoundland, whereby DREE and the Provincial Authorities shared the capital cost for: (a) The augmentation of water supply systems to several coastal communities in Newfoundland, and (b) the construction of wharfs, service center buildings, storage areas, supply and installation of travelift and synchrolift equipment at Marine Service Centers. Due to the fact that the benefits of these forms of capital improvements were enjoyed almost exclusively by fishermen and fish processors and, as previously noted, a preponderance of the fish produced in Canada is exported, the regional aids descried above were preliminarily considered bounties or grants.

(4) Other forms of assistance, including (a) vessel construction assistance under the Fishermen's Loan Act provided by lending authorities in New Brunswick, Nova Scotia, and Prince Edward Island; (b) loans for the processing facilities under the New Brunswick Development Corp.; and (c) plant expansion loans

provided by Nova Scotia Industrial Estates, Ltd.[6]

On June 10, 1978, the Treasury Department decided to waive countervailing duries against Canadian imports of groundfish on the following basis:

1. The Canadian Government had discontinued the 5 percent ad valorem subsidy paid to processors as of January 1, 1978.
2. It also discontinued as of March 1, 1978 cash subsidies of 4 percent paid to offshore vessels and affecting 50 percent of their catch.
3. The Canadian Government had also agreed to eliminate by October 1, 1978 the 4 percent ad valorem onshore subsidy to small vessels and affecting 40 percent of their catch.

In all, the Canadian Government should have eliminated 92 percent of its subsidies to fishermen and processors of groundfish by October 1, 1978. The remaining 8 percent were to be countervailed upon expiration of waiver on January 4, 1979.

In early 1979, the Fisheries Council of Canada asserted that the last of the direct subsidies paid to Canadian fishermen and processors had been discontinued and that other programs still in place were only intended to improve economic conditions in disadvantaged regions of Canada and to assist the competitiveness of Canadian shipyards. The

---

[6] Federal Register, Vol. 43, No. 132, July 10, 1978.

Council claimed that these programs had only remote effects on Canadian fishery products and did not affect the price of Canadian fish products sold in the United States over those produced by U.S. fishermen.

Information on the extent of Canadian financial assistance programs in 1980 is limited. It is clear, however, that Canada is continuing its efforts to modernize its fleet, improve processing facilities and expand its export markets.

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

Committee for Fisheries

FI/186

RESTRICTED

Paris, 15th January, 1979
Or. Engl.

RE-EXAMINATION OF FINANCIAL SUPPORT TO THE FISHING INDUSTRY

Canada

The accompanying report has been submitted by the Canadian authorities and is presented to the Committee for EXAMINATION AND DISCUSSION.

FINANCIAL SUPPORT TO THE FISHING INDUSTRY IN 1976/77

CANADA

1. The federal government as well as provincial governments operate on-going programs which provide financial and other assistance to the Canadian fishing industry. Generally, these programs are designed to encourage modernization and rationalization of both the primary and secondary sectors of the fishing industry. During the period 1973/1978, special ad hoc assistance programs were necessitated to sustain segments of the fishing industry adversely affected by the combination of drastic declines in resource availability, depressed markets, and unusually high operating costs.

2. To deal with these fundamental problems, the Canadian government made a commitment in mid-1975 to embark upon a systematic approach to fishery resource maangement and development. A package of rehabilitation measures was taken; the first major step being the extension of fisheries jurisdiction to 200 miles. Since resource recovery to a satisfactory level would take about 5 to 10 years and given the need to avoid socio-economic and cultural disruptions that would result in the meantime, the government implemented a "bridging program" to prevent wholesale collapse of the fishing industry and dislocation of communities. The central tenet of the program was to hold the industry until resources recovered and other rehabilitation measures began to take effect. Once the fishery was back on the road to recovery, the temporary assistance was phased-out.

3. The Atlantic Region of Canada (Newfoundland, the Maritimes and the coastal areas of Quebec) depends heavily on the fishing industry. About 75% of the communities in this region take part in commercial fishing. Of these communities, some 20% roughly 250,000 people) have no other economic base. In the Pacific region, there is less dependence on the fisheries and in most fishing communities there are alternative ways of making a living. Nevertheless, many isolated coastal communities, and a significant sector of the Pacific Coast's economy depend on fishery-related industry and services. In the freshwater fisheries of Western and Central Canada, dependence on fishing is especially high for some Indian communities of the Northwest Territories, in the northern parts of Manitoba, Saskatchewan and Alberta, and in Northwestern Ontario.

4. The major programs for the fiscal year 1976/77 included;

(a) Fishing vessel assistance program

5. The Federal Department of Fisheries and the Environment provided grants of up to 35% of the approved cost for the replacement, modification or conversion of vessel less than 75 feet in overall length. The minimum length of vessel

eligible for grant was 30 feet for those in sea coast fisheries and 20 feet for those in inland fisheries. More than 90% of the available funds were allocated to the Atlantic region. No funds were allocated to the Pacific Region for construction of new vessels since the West Coast fleet is already highly capitalized.

(b) Fisheries improvement loans

6. The Federal Department of Finance operated a program which guaranteed loans made by chartered banks and other lenders to fishermen for purchase or construction, major repair or overhaul of fishing vessels and equipment, shore installations and other improvement works by primary fishing enterprise. The maximum amount of outstanding loans was set at $50,000 per fisherman at an interest rate not exceeding 9½% as prescribed by Regulations. The repayment period is variable subject to a maximum period of ten years.

(c) Fishing vessel insurance plan

7. The Fishing Vessel Insurance Plan, administered by the Federal Department of Fisheries and the Environment, provided insurance coverage for fishermen against the loss or damage of vessels or electronic equipment. Regulations as amended in 1975 resulted in the establishment of a variable rate of premium depending on the risk of each individual vessel rather than the appraised value of the vessel.

(d) Fisheries Prices Support Board

8. The Fisheries Prices Support Board makes deficiency payments, when justified, to fishermen and processors whenever prices drop as a result of sudden marketing difficulties. During 1976/77, payments were made on smelt, Bay of Fundy herring, salted and dried codfish and cutter-grade whitefish. The Board also purchased canned mackerel, canned herring and salt minced fish from Canadian processors for international food aid and other development programs.

(e) Temporary Assistance Program

9. In the Atlantic groundfish industry, stocks depleted by overfishing, unusually high costs partly stemming from the energy crisis of 1973, and depressed markets produced heavy losses and forced producers toward bankruptcy. To avert a total collapse of the industry, the government undertook several initiatives to rehabilitate the fisheries, amongst them a new fisheries management regime in the extended fisheries zone. While the stocks were rebuilding over the next 5 to 10 years, and other programs were taking effect, the Federal Department of Fisheries and the Environment provided emergency "bridging" assistance to groundfish fishermen and processors during this transitional period until satisfactory stock recovery. Special

assistance payments were made to groundfish fishermen and processors for first-quality fish landed and for first-quality fresh and frozen fillets and frozen blocks. With improvement in resources, market returns and prices to fishermen, the conditional grants to processors were terminated March 31, 1977 and payments to fishermen ended on September 30, 1978.

10. Under a separate part of the Program, ad hoc fishing incentives were offered by the Federal Department of Fisheries and the Environment to divert certain fishing effort to new areas and species and at the same time relieve pressure on stocks in traditional fishing areas, e.g. incentives to encourage large trawler vessels to fish outside the Gulf of St. Lawrence and in far northern waters. These incentives were terminated on March 31, 1978.

(f) Other Assistance Programmes

11. In addition to the above federal programmes, provincial governments of the five Atlantic provinces (Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island and Québec) also operated a number of fishermen loans and grants programmes for construction and procurement of vessels and equipment. Interest rates and terms and conditions of these loans, loan guarantees and grants vary from province to province.

MAJOR FEDERAL FINANCIAL ASSISTANCE TO THE FISHING INDUSTRY

Type of aid	1968/69		1976/77	
	Brief details	Amount provided	Brief details	Amount provided
Federal assistance for the construction of fishing vessels.	35% of the approved costs for a wooden vessel over 45 ft. and less than 100 g.r.t.; 40% for a wooden vessel of 100 g.r.t. and over. Only available for the Atlantic coast.	$1.3 million	35% of the approved costs for vessels between 30 ft and 75 ft. for coastal regions and between 20 ft and 75 ft. for inland regions.	$4.0 million
Federal guarantees for private loans to fishermen, for financing the acquisition or repair of vessels, equipment and shore installations.	Maximum amount of loans was $25,000, maximum repayment period 10 years and maximum interest rate prescribed by Regulations.	Guaranteed loans granted: $1.1 million.	Maximum amount of loans was $50,000, maximum repayment period 10 years and maximum interest rate prescribed by Regulations.	Guaranteed loans granted: $11.7 million
Federal insurance against the loss of vessels.	Annual premium rates determined by appraised value of vessel.	Insurance in force: $38 million; Net premiums received: $526,000; Net claims paid: $489,000.	Annual premium rates determined by risk of each individual vessel.	Insurance in force: $122 million; Net premiums received: $3.4 million; Net claims paid: $2.5 million.
Fisheries Price Support Board.	Purchase programmes: canned mackerel, Lake Erie yellow perch, dried salt fish. Deficiency payments: cod, redfish, flounder.	Costs of purchase: $2.5 million; Sales & inventory: $0.9 million Deficiency payments: $4.2 million.	Purchase programmes: canned mackerel, canned herring, salt minced fish. Deficiency payments: smelt, Bay of Fundy herring, salted & dried cod, cutter-grade whitefish.	Costs of purchase: $1.2 million; Sales & inventory: $1.1 million; Deficiency payments: $1.3 million.
Federal special assistance to groundfish fishermen and processors to overcome financial hardship during crisis and financial incentives to exploit non-traditional fishing areas.	Nil	Nil	Special assistance payments: up to 2¢/lb of landed groundfish to fishermen and up to 6¢/lb of eligible groundfish products to processors. Ad hoc fishing incentives: terms depending on the region, e.g. in Newfoundland up to $2,300 per sea days to trawlers fishing in ICNAF Divisions 2GHJ and 3KL less the actual catch value per sea days.	$34 million (payments to processors were terminated March 31, 1977 and payments to groundfish fishermen ended on September 30, 1978; all fishing incentive programmes ended March 31, 1978).

COPY *Department of State* INCOMING TELEGRAM

PAGE 01 QUEBEC 08435 01 OF 02 132216Z 6548 EUR6411
ACTION EUR-12

ACTION OFFICE CAN-02
INFO /002 A3

INFO OCT-01 ADS-00 EB-08 H-01 STR-11 /033 W
------------------118714 132244Z /65

P 132118Z NOV 81
FM AMCONSUL QUEBEC
TO SECSTATE WASHDC PRIORITY 2713
INFO AMEMBASSY OTTAWA
AMCONSUL MONTREAL
AMCONSUL HALIFAX
OTHER CANADIAN CONSULATES-POUCH

UNCLAS SECTION 1 OF 2 QUEBEC 8435

FOR EUR/CAN AND H

E.O. 12065: N/A
TAGS: ETRD, EPAP, EFIS, CA
SUBJECT: US/CANADIAN CONGRESSIONAL TRADE HEARINGS

REF: A) WEEKS/BARRY TELECON 10/27/81, B) JAEGER/LANDE TELECON 11/13/8 1;
C) BARRY/VAZNAUGH TELECON 11/13/81.

1. SENATOR COHEN'S STAFF HAS CONTACTED CONGEN REQUESTING INFORMATION ON QUEBEC GOVERNMENT ASSISTANCE TO FISHING AND PULP AND PAPER INDUSTRIES IN CONNECTION WITH US/CANADIAN TRADE HEARINGS SCHEDULED NOVEMBER 17. WE PROVIDE FOLLOWING SUMMARY THIS SUBJECT AND REQUEST DEPARTMENT TRANSMIT INFORMATION TO MS. PEGGY WEEKS OF SENATOR'S STAFF ASAP. ADDITIONAL BACKGROUND BROCHURES ALSO BEING POUCHED TO EUR/CAN (NAG) FOR SENATOR'S USE.

2. FISHING INDUSTRY

QUEBEC HAS NUMEROUS PROGRAMS TO EXPAND AND MODERNIZE FISHING FLEET AND RELATED INDUSTRIES THROUGH NO-INTEREST LOANS AND SUBSIDIES. THE PRINCIPAL PROGRAMS, ADMINISTERED BY THE MINISTRY OF AGRICULTURE, FISHING AND FOOD, ARE:

A) RATIONALIZATION OF THE FISHING SECTOR: QUEBEC GOVERNMENT SUBSIDIZES UP TO 30 PER CENT OF COST OF NEW INVESTMENTS IN REAL PROPERTY (OR ANY PROJECT VALUED AT OVER 25,000 DOLS CANADIAN, UP TO MAXIMUM SUBSIDY OF 400,000 DOLS.

B) BOAT CONSTRUCTION: ANY PROFESSIONAL QUEBEC FISHERMAN WHO EARNS AT LEAST 2,500 DOLS CANADIAN/YEAR (1,500 DOLS IN THE DEPRESSED LOWER NORTH SHORE AREA), MAY APPLY FOR 35 PER CENT SUBSIDY OF COST OF NEW FISHING BOAT.

C) MARITIME INSURANCE: QUEBEC OFFERS FISHERMEN SUBSIDIES TO COVER UP TO 50 PER CENT OF INSURANCE PAYMENTS FOR PROTECTING FISHING VESSELS.

D) COMMERCIAL FISHING COOPERATIVES: LEGALLY RECOGNIZED COMMERCIAL FISHING ASSOCIATIONS MAY RECEIVE TECHNICAL AND FINANCIAL ASSISTANCE VALUED AT MAXIMUM OF 2,000 DOLS CANADIAN TO DEFRAY ADMINISTRATIVE RESPONSIBILITIES.

E) STORAGE TANKS: QUEBEC IS PROMOTING USAGE OF MODERN PLASTIC FISH STORAGE TANKS AT SEA AND ON SHORE, OFFERING TECHNICAL ADVICE AND SUBSIDIES AMOUNTING TO 50 PER CENT OF ACQUISITION COST.

F) TRAWLINES AND TRAPS: QUEBEC FISHERMEN ARE ELIGIBLE FOR SUBSIDIES AMOUNTING TO 25 PER CENT OF ACQUISITION COST OF NEW TRAWLINES AND CRAB-POTS WHICH CONFORM TO CONSERVATION

QUEBEC 08435 01 OF 02 132216Z 6548 EUR6411

GUIDELINES.

G) MACKEREL FISHING: QUEBEC IS PROMOTING GREATER EXPLOITATION OF PRESENTLY UNDER-UTILIZED MACKEREL STOCKS BY PAYING PACKAGING ENTERPRISES 0.04 CENTS CANADIAN/LB. FOR ALL MACKEREL BOUGHT FOR PRESERVATION. IN TURN, PACKAGERS MUST AGREE TO PAY FISHERMEN A MINIMUM OF 0.09 CENTS CANADIAN/LB. FOR THEIR CATCH.

H) ICE SUPPLIES: QUEBEC GOVERNMENT ITSELF PRODUCES AND SELLS ICE TO FISHING INDUSTRY. COST OF PRODUCTION IS 34 DOLS CANADIAN/TON BUT QUEBEC FISHERMEN PAY ONLY 10.50 DOLS/TON. NON-RESIDENT FISHERMEN PAY ACTUAL COST OF 34 DOLS.

OF ADDITIONAL INTEREST IS FACT QUEBEC BUDGET DEVOTED TO FISHING SECTOR ROSE 27 PER CENT WITHIN LAST YEAR TO REACH 35.0 MILLION DOLS CANADIAN FOR 1981-82. NO-INTEREST LOANS ACCOUNTED FOR SOME 16 MILLION OF TOTAL. HOWEVER, SOME PROGRAMS CONCERNING FUNCTIONING OF INDIVIDUAL ENTERPRISES ARE BEING CUT BACK IN FAVOR OF FISHING FLEET CONSTRUCTION AND INVESTMENT PROPOSALS WITH WIDE ECONOMIC BENEFITS.

3. PULP AND PAPER INDUSTRY

PULP, PAPER AND PAPERBOARD PLANTS CONSTITUTE 16 PER CENT OF QUEBEC'S MANUFACTURING SECTOR. A MAJOR SOURCE OF JOBS AND EXPORT MARKET (18 PER CENT), THIS INDUSTRY WAS SUBSTANTIALLY LOSING COMPETITIVENESS, PARTICULARLY IN US MARKET WHICH BOUGHT ONE-HALF OF QUEBEC'S PRODUCTION. FEDERAL AND PROVINCIAL GOVERNMENTS THEREFORE INITIATED SUBSIDY PROGRAM TO REVITALIZE THIS INDUSTRY.

A) FINANCIAL ASSISTANCE: ON MAY 15, 1979, QUEBEC AND CANADA SIGNED A 5 YEAR AGREEMENT TO STIMULATE MODERNIZATION OF PULP AND PAPER PLANTS AND DEVELOP FOREST RESOURCES BY PROVIDING INVESTMENT "SEED MONEY". AGREEMENT PROVIDES 240 MILLION DOLLARS CANADIAN (43.75 PER CENT CONTRIBUTED BY QUEBEC AND 56.25 PER CENT PAID BY OTTAWA) TO FUND FOLLOWING COST-REDUCING PROJECTS:
JAEGER

COPY *Department of State* TELEGRAM

PAGE 01 QUEBEC 00435 02 OF 02 132233Z 6555 EUR6415
ACTION EUR-12

ACTION OFFICE CAN-02
INFO /002 A3

INFO OCT-01 ADS-00 EB-08 H-01 STR-11 /033 W
------------------110736 132346Z /65
P 132113Z NOV 81
FM AMCONSUL QUEBEC
TO SECSTATE WASHDC PRIORITY 3714
INFO AMEMBASSY OTTAWA
AMCONSUL MONTREAL
AMCONSUL HALIFAX
OTHER CANADIAN CONSULATES-POUCH

UNCLAS SECTION 2 OF 2 QUEBEC 435

-- INCREASE PRODUCTION CAPACITY OTHER THAN OF NEWSPRINT,

-- INCREASE PRODUCTION CAPACITY OF NEWSPRINT THROUGH REPLACEMENT OR SPEED-UP OF MACHINE CAPACITY;

--CONVERT OR ACQUIRE NEW MACHINERY TO PRODUCE PULP MORE EFFICIENTLY;

-- IMPROVE END PRODUCTS;

-- ACQUIRE ENVIRONMENTALLY PROTECTIVE EQUIPMENT,

-- MODERNIZE PULP MILL RECOVERY FURNACES TO MEET GOVERNMENT ENERGY STANDARDS; AND

-- REMODEL MILLS' OVERALL OPERATIONS TO RESTORE LONG-TERM PROFITABILITY.

THE MINIMUM INVESTMENT THIS INDUSTRY WHICH GOVERNMENT WILL HELP SUBSIDIZE IS 500,000 DOLS CANADIAN, BUT NEW MILLS ARE COMPLETELY EXCLUDED FROM PROGRAM. FURTHERMORE, ALL INVESTMENT PROPOSALS MUST MEET GOVERNMENTAL ENVIRONMENT AND ENERGY SAVING STANDARDS.
7) WORKERS COMPENSATION. QUEBEC HAS A SEPARATE PROGRAM TO DIMINISH LOSS OF JOBS WHICH USUALLY ACCOMPANIES GREATER RELIANCE ON MODERN MACHINERY. A WORKERS COMPENSATION FUND OF ONE MILLION DOLLARS CANADIAN HAS BEEN CREATED FOR PULP AND PAPER INDUSTRY FINANCED 20 PER CENT BY QUEBEC AND 80 PER CENT BY PRIVATE ENTERPRISE. IT PROVIDES:

-- A WEEKLY INDEMNITY PLUS STANDARD UNEMPLOYMENT INSURANCE IN SOME CASES; AND

-- A RELOCATION PREMIUM, IN ADDITION TO THAT PROVIDED BY ANY FEDERAL LEGISLATION, TO A LAID-OFF EMPLOYEE WHO MOVES IN ORDER TO ACCEPT EMPLOYMENT IN ANOTHER PULP AND PAPER MILL.

8. FOREST DEVELOPMENT

IN 1977, QUEBEC WOOD COST APPROXIMATELY 25 DOLS CANADIAN MORE THAN COMPARABLE US WOOD, HURTING SIGNIFICANTLY THE COMPETITIVENESS OF QUEBEC ENTERPRISES. THUS AN AMENDMENT TO THE MAY 1979 FEDERAL/PROVINCIAL AGREEMENT WAS SIGNED TO COVER FOREST DEVELOPMENT AND INCREASE TO 322 MILLION DOLS THE TOTAL SUM OF FINANCIAL ASSISTANCE THIS PROBLEM. CONTRIBUTIONS FROM QUEBEC AND CANADA ARE PAID ON A 60/40 BASIS.

THIS PROGRAM IS DESIGNED TO FACILITATE ACCESS BETWEEN FORESTS AND MILLS AND BETTER USE OF AVAILABLE RESOURCES SUCH AS HARDWOODS, CHIPS, SAWDUST, ETC. IT COMPRISES:

QUEBEC 00435 02 OF 02 132233Z 6555 EUR6415

-- 75 MILLION DOLS CANADIAN FOR FOREST ROADS IN CROWN FOREST;

-- 37 MILLION DOLS FOR FOREST ROADS WHERE LIMITS ARE TO BE REVOKED;

-- 50 MILLION DOLS FOR REFORESTATION; AND

-- 3 MILLION DOLS FOR FURTHER IMPROVEMENT STUDIES.

9. ABOVE INFORMATION HAS BEEN TAKEN FROM PUBLICIZED SOURCES ONLY. WITH LIMITED TIME AVAILABLE TO CON GEN, OBJECTIVES OF SUBSIDY PROGRAMS HAVE NOT BEEN COMPARED WITH LATEST DEVELOPMENTS. WE ANTICIPATE IN FACT QUEBEC POLICIES THIS SUBJECT WILL BE FURTHER REVISED SINCE PREMIER LEVESQUE, IN NOVEMBER 9 SPEECH TO NATIONAL ASSEMBLY, STATED FISHING AND PULP AND PAPER INDUSTRIES WOULD SOON RECEIVE ADDITIONAL ATTENTION.
JAEGER

UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
National Marine Fisheries Service
Office of International Fisheries Affairs
Foreign Fisheries Analysis Division
Washington, D.C. 20235

IFR-78/196
F41/MM

CANADIAN SUBSIDIES TO THE FISHING INDUSTRY

I. Introduction

The Canadian Government announced this summer some drastic reductions in subsidy payments to fishermen and processors, thereby permitting the U.S. Treasury Department to waive the imposition of countervailing duties on several imported fishery products from Canada.1/ The above decision affected subsidy payments under the Groundfish Temporary Assistance Program, introduced in 1974 to rescue the Atlantic groundfish industry from a serious economic crisis. According to Canadian official statements, direct subsidies on groundfish exports have been reduced by 92 percent as of October 1, 1978.

The Division of Foreign Fisheries Analysis has prepared a short summary and update of Canadian subsidy programs for the fishing industry. The report does not attempt to cover this complex topic comprehensively, but gives a brief review of the scope and direction of policies to assist the Canadian fisheries. Canada's fisheries aid programs are long-standing and diverse. Some subsidies, such as aid for the construction of fishing vessels, have been used for decades. Other programs are administered by several agencies, Federal and Provincial. Loans to fishermen, for example, have been funded largely through Provincial budgets. Some subsidy programs fall neatly within one category of assistance while others are actually a combination of different programs, dealing with specific regions and fisheries.

II. Subsidy Programs in the Fiscal Year 1977-78: The Comprehensive Plan

In April 1977, the Federal Government announced its comprehensive plan of subsidies for the fishing industry during 1977-78. The program emphasized relief for fishermen of the inshore fishing fleet. Budget authorizations were somewhat more modest than in the previous two years, and far less than the amount of subsidies sought by the advocates, mainly in the Atlantic Provinces, of vastly increased assistance programs.

In the Atlantic region, the Government announced its intention to reduce the levels of financial assistance below those of recent years and to shift the emphasis of the subsidy programs from "rescue" to "rebuilding". Between mid-1974 and March 1977, the Government had budgeted about C$130 million for special assistance, mainly to support the ailing Atlantic groundfish fleet. For fiscal year 1977-78, the fisheries rebuilding

---

1/For details, request IFR-78/103 from this Statistics and Market News Office, enclosing a pre-addressed mailing label.

program announced on April 20, 1977 was authorized to spend C$41 million with emphasis on improving the profitability of the inshore fisheries and making modest efforts to develop the capacity of the offshore fleet. The program follows policy directives elaborated in the Department of Fisheries and the Environment's 1976 publication, Policy for Canada's Commercial Fisheries. The current program benefits primarily coastal fishermen who operate approximately 25,000 small and medium-size vessels along Canada's Atlantic coast. The main programs of the FY 1977-78 assistance plan were as follows:

1-increasing the value of landed fish with such programs as a four-year, C$13-million plan (of which C$3.6 million to be spent in the current fiscal year) to provide new offloading facilities in 200 Newfoundland fishing communities;

2-developing new grounds and new species, primarily off Labrador and northern Newfoundland (funded at C$3.6 million);

3-subsidizing the refitting of the fishing fleet, especially the redfish trawlers in the Gulf of St. Lawrence, to make it capable of fishing for more than one species;

4-promoting export marketing, with a priority for underutilized species, such as dogfish, lumpfish, skate, squid, and seal products.

Of interest to foreign importers of Canadian fishery products is the fact that the Department originally announced that "conditional grants for processors of frozen groundfish for export will still be available whenever monthly analysis proves the need,"

The Department emphasized, however that this direct export subsidy would total only about one-half of 1976 subsidies and one-third of those in 1975. Subsequently, the Canadian Government announced, in the face of a U.S. Treasury Department countervailing duty investigation, that the conditional grants program for processess was terminated on March 31, 1978.

III. Programs to Aid Specific Regions or Fisheries

Canadian aid programs for the fishing industry are to a significant degree regional assistance plans, mainly due to the fact that fishing is often a traditional, labor-intensive industry, sometimes in an economically depressed area. The two most important and by far most expensive subsidy programs currently being considered by the Canadian Government fall in this category. They are:

1-a C$900 million assistance program, aimed primarily at fleet development in the Atlantic region;

2-a 15-year C$400 million Salmonid Enhancement Program, which benefits British Columbia almost exclusively.

The Atlantic plan, involving basically subsidies for the construction of a modern fishing fleet, will be discussed in detail in the section of fleet development.

The Government has given every indication of approving The Salmonid Enhancement Program which is designed to increase salmon landings and to promote the commercial viability of that industry in British Columbia. The program will include several different facets but it appears that a major emphasis will be placed on more strict enforcement of salmon fishing regulations, both in Canada's 200-mile zone and in the rivers of British Columbia, and on greater efforts to control environmental pollution.

Other aid programs are also designed in large measure to assist specific communities and local fisheries. Good examples of the above for the Atlantic region are the several efforts to modernize the fishing industry on the northern coast of Newfoundland and to convert the Bay of Fundy herring fishery from primarily a reduction to a food fishery. Particular stress is placed on developing the industry in northern Newfoundland because this area is not only economically depressed, relative to the rest of Canada, but also has easy access to the rich, underutilized fishery resources, like northern cod, Illex squid, and capelin, off the coast of Labrador.

Another point which should be made while discussing the regional context of Canadian public assistance for fisheries is that the Provincial Governments play an important role in subsidizing the industry. This is accomplished through intensive regional lobbying in Ottawa for additional Federal subsidies and through budget authorizations by the Provinces themselves for aid to the fishing industry. Precise figures are not available for the current fiscal year but evidence from the period 1973-75 suggests that the Provincial Governments are the primary source of one type of assistance, developmental loans. In fact, if one includes under "subsidy" all the "developmental services", grants, and shared-cost projects, as well as those programs which the Federal Government classified as subsidies, the Provincial share in the entire Canadian public assistance effort is probably more than one-fifth.

Table 1.--Canada. Average annual expenditure by Federal and Provincial agencies on: 1) development (services, grants, subsidies, and shared-cost projects) and; 2) loans, Atlantic region fisheries, 1973-1975

Agency	Development	Loans	Total
	-------C$1,000,000-------		
Department of the Environment Fisheries and Marine Service	25.1	1.6	26.7
Other Federal agencies	12.8	.5	13.3
Total Federal	37.9	2.1	40.0
Provincial agencies	10.9	27.3	38.2
Total Federal and Provincial	48.8	29.4	78.2

Source: Department of the Environment, *Policy for Canada's Commercial Fisheries, 1976*

IV. Price Support Programs

The goal of ensuring adequate prices for fishermen has traditionally been met through the activities of the Fisheries Prices Support Board. Founded in 1947, the Board has regularly intervened through support payments and purchases of surplus production to stabilize prices. A good recent example is the 1977 assistance package of C$400,000 to support prices of small cod caught by the inshore fishermen in Newfoundland and parts of Quebec.[2] This subsidy provided fishermen with an assistance payment of C$.02 per pound to maintain prices at 1976 levels.

Spending for price support programs has always been substantial and, after 1974-75, became an even more significant component of the Government's overall assistance effort. Between 1955 and 1974, the Federal Fisheries Prices Support Board provided more than C$38 million in assistance payments to fishermen in the Atlantic region.[3] In 1974, responding to the deteriorating economic situation in the Atlantic groundfish sector, a series of emergency deficiency payment and capital loan plans were introduced which enhanced considerably the role of the Government in the area of fisheries price support operations. In April 1975, C$51 million was authorized as an interim program to last until March 31, 1976, with a major emphasis on deficiency payments and conditional grants to groundfish fishermen and processors. One year later, in March 31, 1976, the Fisheries and Marine Service authorized C$44 million for fiscal year 1976/1977 as temporary assistance, most of which went to the Atlantic region groundfish industry. As indicated previously, the Government indicated its intention to reduce certain types of price support payments for the current fiscal year, citing the increases in groundfish price levels as the major reason.

V. Fleet Development Programs

One of the major, if not most significant, forms of assistance provided by the Government to the fishing industry has been the subsidy for developing the fishing fleet. This includes building new vessels and replacing and modernizing existing ones. Currently, the debate over federal assistance to the industry is centered around the demands of the Atlantic Provinces for a vast new subsidy for fleet development. Led by Nova Scotian and Newfoundland officials, the Atlantic industry is asking for a long-range C$900 million aid plan, with the major emphasis on developing a fleet of large, modern vessels capable of fully exploiting the fishery resources now under Canadian jurisdiction. The above plan was submitted to Environment and Fisheries Minister LeBlanc on December 5, 1977 but it is obviously far two ambitious and expensive for Ottawa. At a seminar on fisheries development held at Marystown, Newfoundland on December 3-4, 1977, and attended by LeBlanc and External Affairs Minister Jamieson, the Government provided its first "official" reply to the Atlantic Provinces subsidy proposal.

---

[2] For additional details, request IFR-77/139 from this Statistics and Market News Office, enclosing a pre-addressed mailing label.

[3] Harold Kyte and Wayne Meserve, in paper submitted to the Department of Economics, University of Maine.

In a paper entitled "Fleet Development" issued by the Department of Fisheries and the Environment, the Government took a cautious attitude toward the issue of assistance to the fishing fleet.[4] The paper stated that the primary purpose of the assistance payments for fleet development was to permit the existing fleet to operate viably throughout the fishing season and to improve its productivity. Only after the above goals are met should the Government undertake programs to encourage the expansion of the fleet.

The Department described its fleet development policies in the period 1976-1977 as designed to support a "level of replacement that has been consistent with the desires of existing eligible vessel owners". Assistance for new vessel construction has been confined to smaller vessels, while the emphasis of the assistance program has been to convert existing vessels "to add new capabilities or improve operating efficiencies".

As for the future expansion of the Canadian fishing fleet, the Department cautioned that it must proceed "in an orderly fashion". In view of the high construction costs of stern trawlers, no rapid development of this sector of the fleet is foreseen until the possibility of improved catch rates can be documented.

Commenting on what the Government sees as the requirements of the Atlantic fishing fleet in 1982, the paper projects no new efforts in the Maritime Provinces (Nova Scotia, New Brunswick, and Prince Edward Island) and the Gulf of St. Lawrence; in the northern area (off Newfoundland and Labrador) perhaps a dozen stern trawlers and freezer trawlers will be necessary to exploit new grounds. Factory freezer trawlers will not be required for existing fisheries, but may be necessary in small numbers for fisheries in new grounds (like cod off Newfoundland) or for non-traditional species (like squid, silver hake, and argentine). LeBlanc was openly skeptical about the market potential of the so-called underutilized species, thus adding another discouraging note to the proposals of the Atlantic region.[5]

In the Maritimes and in Newfoundland, then, local officials have pushed for vastly increased subsidies with an emphasis on expanding the fleet by adding a large number of multi-purpose vessels. The chief component of their program calls for the construction of 125 wet-fish vessels, which ice but do not freeze their catch, at an estimated cost of C$600 million.

---

[4] Canada. Department of Fisheries and the Environment. Fisheries and Marine Service, Fleet Development, December 4, 1977.

[5] LeBlanc's doubts about the market potential for underutilized species should be contrasted with the open enthusiasm of some provincial officials and industry spokesmen. Dr. Daniel Reid, Minister of Fisheries in Nova Scotia, has been particularly emphatic on the need to develop fisheries for non-traditional species, like silver hake and squid.

The Government, by contrast, favors conservation rather than ambitious exploitation of fishery resources, and has advocated a much more cautious program. As far as recent fishing vessel subsidy programs are concerned, the 1977 assistance plan conforms to the Department's cautious philosophy. Assistance payments in 1977 were budgeted at C$2.6 million, designed exclusively to replace vessels at least 10 years old. All of the above payments went to the Atlantic region.[6] To put this in perspective, it should be pointed out that between 1954 and 1972, about C$64 million was paid to Atlantic fishermen as fishing vessel construction subsidies. This C$2.6 million is less than the average annual payment of C$3.4 million for the 1954-72 period, especially when the increased cost of vessel construction is considered.

VI. Fish Handling and Processing Facilities

A number of specific aid programs, intended primarily to increase the value of landed and processed fish, fall under this category. Several of these assistance programs are aimed at particular regions and fisheries. The following are a few examples recently reported by the Branch of International Fisheries Analysis.

1-Subsidies totaling C$1.8 million in 1977 for the equipment to aid the conversion of the Bay of Fundy herring fishery from a reduction to a food fishery.

2-Assistance totaling C$2.2 million in 1977 to develop processing facilities for Newfoundland's coastal fishing industry.

3-A 4-year, C$13 million program, announced in late 1977, and described above, to develop modern fish handling systems in Newfoundland, and thereby increase the value of fish landed by the inshore fishermen.

VII. "Financial" Subsidies

Several other assistance programs which do not fit well into any of the above categories and are often of a "financial incentive" nature, are administered by the Federal Government or by the Provinces for the benefit of the fishing industry. These include the provision of low cost insurance for fishing vessels, loan guarantees (funded primarily by the Provinces), tax exemptions, like the exemption from paying taxes on diesel fuel, and others. The above examples are not all permanent or general policies. Rather, these are, in some instances, temporary and regional measures, and because their administration is so dispersed, it would be extremely difficult to place an annual value on this category of incentives.

---

[6] For details, request IFR-77/147 from this Statistics and Market News Office, enclosing a pre-addressed mailing label.

[7] For details, request IFR-77/112 from this Statistics and Market News Office, enclosing a pre-addressed mailing label.

VIII. Effect on Canadian Fishery Exports

There are several difficulties in any attempt to assess the significance of the Canadian Government's assistance for fisheries as far as exports are concerned. A recent study prepared by researchers at the University of Rhode Island,[8] admitted that it was impossible to place an overall monetary value on the subsidy programs or to determine precisely their impact on exported fishery products. Since most of the assistance programs are spread over the entire industry, applying in effect to both domestically-consumed as well as to exported fish, the subsidies do have as one result the support of exports. This is true of fleet modernization programs and aid to improve processing facilities as well as it is of direct payments to processors of groundfish for export. It is certainly true for example, that Canadian efforts to subsidize the expansion and modernization of the fishing fleet has something to do with the fact that Canada's Atlantic fleet is generally larger and more productive than the US fishing fleet off New England. This has created a competitive market advantage for the Canadians.

Table 2.--Canada. Federal and Provincial subsidies for groundfish exports, according to type of subsidy, cents per pound

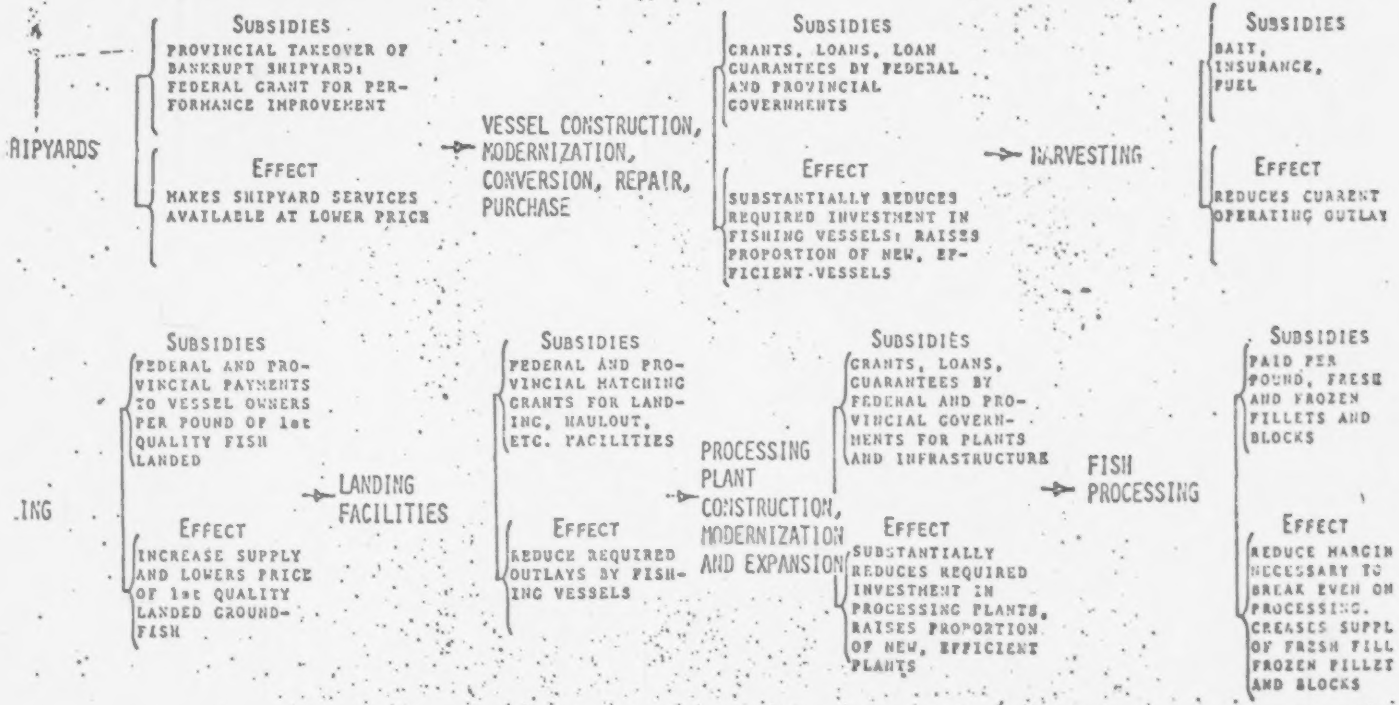
Sector	Minimum Case	Amount	Maximum Case
		C¢ per lb. (landed weight)	
Harvesting			
Fixed costs	1.00		4.60
Operating costs	0.50		0.50
Deficiency Payments	1.75		1.75
Total	3.25		6.85
		C¢ per lb. (processed weight)	
Processing (Frozen Fillets)			
Fixed costs	10.0		10.0
Conditional Grant	6.0		6.0
Total	16.0		16.0
All Levels (Frozen Fillets)			
Harvesting	8.9		18.8
Processing	16.9		16.0
Total	24.9		34.8
All Levels (Fresh Fillets)			
Harvesting	8.9		18.8
Processing	14.0		14.0
Total	22.9		32.8

Source: Virgin Norton et al., "Subsidies to Canadian Groundfish Industry."

---

[8] Virgil Norton et al., "Subsidies to Canadian Groundfish Industry," Department of Resource Economics, University of Rhode Island, June 1977.

igure 1.--Canada. Schema representing major types of federal and provincial subsidies to the fishing industry and their economic effect


RIPYARDS
SUBSIDIES
PROVINCIAL TAKEOVER OF BANKRUPT SHIPYARD; FEDERAL GRANT FOR PERFORMANCE IMPROVEMENT
EFFECT
MAKES SHIPYARD SERVICES AVAILABLE AT LOWER PRICE
VESSEL CONSTRUCTION, MODERNIZATION, CONVERSION, REPAIR, PURCHASE
SUBSIDIES
GRANTS, LOANS, LOAN GUARANTEES BY FEDERAL AND PROVINCIAL GOVERNMENTS
EFFECT
SUBSTANTIALLY REDUCES REQUIRED INVESTMENT IN FISHING VESSELS; RAISES PROPORTION OF NEW, EFFICIENT VESSELS
HARVESTING
SUBSIDIES
BAIT, INSURANCE, FUEL
EFFECT
REDUCES CURRENT OPERATING OUTLAY
ING
SUBSIDIES
FEDERAL AND PROVINCIAL PAYMENTS TO VESSEL OWNERS PER POUND OF 1st QUALITY FISH LANDED
EFFECT
INCREASE SUPPLY AND LOWERS PRICE OF 1st QUALITY LANDED GROUNDFISH
LANDING FACILITIES
SUBSIDIES
FEDERAL AND PROVINCIAL MATCHING GRANTS FOR LANDING, HAULOUT, ETC. FACILITIES
EFFECT
REDUCE REQUIRED OUTLAYS BY FISHING VESSELS
PROCESSING PLANT CONSTRUCTION, MODERNIZATION AND EXPANSION
SUBSIDIES
GRANTS, LOANS, GUARANTEES BY FEDERAL AND PROVINCIAL GOVERNMENTS FOR PLANTS AND INFRASTRUCTURE
EFFECT
SUBSTANTIALLY REDUCES REQUIRED INVESTMENT IN PROCESSING PLANTS, RAISES PROPORTION OF NEW, EFFICIENT PLANTS
FISH PROCESSING
SUBSIDIES
PAID PER POUND, FRESH AND FROZEN FILLETS AND BLOCKS
EFFECT
REDUCE MARGIN NECESSARY TO BREAK EVEN ON PROCESSING. CREASES SUPPL OF FRESH FILL FROZEN FILLET AND BLOCKS

urce:Virgil Norton et al.,"Subsidies to Canadian Groundfish Industry."

The Rhode Island University study, which is the latest comprehensive treatment of this subject, includes an analysis and breakdown of the economic effect of Canadian subsidies on groundfish exports to the U.S. and concludes that the impact can be determined within a range, if not precisely. The net subsidy on fresh groundfish fillets exported to the US is estimated at between C$.23 and C$.33 per pound and for frozen groundfish fillets between about C$.25 and C$.35 per pound (table 2).

Another way of illustrating the impact on exports is to represent it schematically. The diagram in figure 1, although it does not determine any more precisely the net subsidy per pound, does show clearly the diversity of the various assistance programs and how they effect every segment of the industry. It should be added that Canadian subsidy programs have the effect of benefiting not only exports to the US but also exports to other countries, which could be competing with US exports. This is particularly true since both Canada and the US have begun plans to develop foreign markets for both traditional and underutilized species. In this connection, it should be pointed out that Canada has thus far been somewhat more successful in exploiting foreign market opportunities for such species as squid (Japan) and herring (Western Europe) than the US and that, in part, this is due to more generous Canadian public assistance.9/

9/For details on the impact of subsidies on Canada's Bay of Fundy herring fishery, request IFR-77/250 from this Statistics and Market News Office, enclosing a pre-addressed mailing label.

Sources: Canada. Department of Fisheries and the Environment, Fisheries and Marine Service, Fleet Development, December 4, 1977; Globe and Mail, September 1, 1977; Canadian Fisherman and Ocean Science, August-September 1977; World Fishing, June 1977; Fisheries and Marine News, May 1977; Virgil Norton et al., "Subsidies to Canadian Groundfish Industry," Department of Resources Economics, University of Rhode Island, June 1977; Canada. Department of Fisheries and the Environment, Fisheries and Marine Service, Policy for Canada's Commercial Fisheries, May 1976; Harold Kyte and Wayne Meserve. Paper submitted to the Department of Economics, University of Maine.

* * * *

FOR REGIONAL MARKET NEWS OFFICES ONLY - Please use this summary if space limitations do not allow you to publish the entire release.

SUMMARY: The Government of Canada administers, on both the Federal and Provincial level, a comprehensive program for subsidies to various sectors of the fishing industry. The subsidies have the effect of aiding Canadian exports of fishery products both to the US and to other countries. The Division of Foreign Fisheries Analysis, Office of International Fisheries Affairs, has prepared a report summarizing the major subsidy programs to give an overview of the current status of public support for the Canadian fishing industry. For details, request IFR/78-196 from this Statistics and Market News Office, enclosing a pre-addressed mailing label.

FINANCIAL SUPPORT
TO THE
FISHING INDUSTRY
OF OECD MEMBER COUNTRIES

ORGANISATION
FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
PARIS 1980

470

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December 1960, which provides that the OECD shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The Members of OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

Publié en français sous le titre

LES AIDES FINANCIÈRES
AUX INDUSTRIES DE LA PÊCHE

∴

© OECD, 1980
Queries concerning permissions or translation rights should be addressed to:
Director of Information, OECD
2, rue André-Pascal, 75775 PARIS CEDEX 16, France.

CANADA

1. The federal government as well as provincial governments operate on-going programs which provide financial and other assistance to the Canadian fishing industry. Generally, these programs are designed to encourage modernization and rationalization of both the primary and secondary sectors of the fishing industry. During the period 1973/1978, special ad hoc assistance programs were necessitated to sustain segments of the fishing industry adversely affected by the combination of drastic declines in resource availability, depressed markets, and unusually high operating costs.

2. To deal with these fundamental problems, the Canadian government made a commitment in mid-1975 to embark upon a systematic approach to fishery resource management and development. A package of rehabilitation measures was taken; the first major step being the extension of fisheries jurisdiction to 200 miles. Since resource recovery to a satisfactory level would take about 5 to 10 years and given the need to avoid socio-economic and cultural disruptions that would result in the meantime, the government implemented a "bridging program" to prevent wholesale collapse of the fishing industry and dislocation of communities. The central tenet of the program was to hold the industry until resources recovered and other rehabilitation measures began to take effect. Once the fishery was back on the road to recovery, the temporary assistance was phased-out.

3. The Atlantic Region of Canada (Newfoundland, the Maritimes and the coastal areas of Quebec) depends heavily on the fishing industry. About 75% of the communities in this region take part in commercial fishing. Of these communities, some 20% (roughly 250,000 people) have no other economic base. In the Pacific Region, there is less dependence on the fisheries and in most fishing communities there are alternative ways of making a living. Nevertheless, many isolated coastal communities, and a significant sector of the Pacific Coast's economy depend on fishery-related industry and services. In the fresh-water fisheries of Western and Central Canada, dependence on fishing is especially high for some Indian communities of the Northwest Territories, in the northern parts of Manitoba, Saskatchewan and Alberta, and in Northwestern Ontario.

4. The major programs for the fiscal year 1978/79 included,

(a) Fishing vessel assistance program

5. The federal Department of Fisheries and Oceans provided grants of up to 35% of the approved cost for the replacement, modification or conversion of vessel less than 75 feet in overall length. The minimum length of vessel

eligible for grant is 25 feet for those in sea coast fisheries and 16 feet for those in inland fisheries. More than 90% of the available funds were allocated to the Atlantic region. No funds were allocated to the Pacific Region for construction of new vessels since the West Coast fleet is already highly capitalised.

(b) Fisheries improvement loans

6. The federal Department of Fisheries and Oceans operated a programme which guaranteed loans made by chartered banks and other lenders to fishermen for purchase or construction, major repair or overhaul of fishing vessels and equipment, shore installations and other improvement works by primary fishing enterprises. The maximum amount which a fisherman may have outstanding under this programme at any one time may not exceed $75,000. The rate of interest on these loans is set at one per cent over the prime lending rates of the chartered banks, and fluctuates (higher or lower) with changes in the prime lending rates of the chartered banks for the duration of the loan. The repayment period is variable subject to a maximum period of ten years.

(c) Fishing Vessel Insurance Plan

7. The Fishing Vessel Insurance Plan is administered by the Department of Fisheries and Oceans. It provides vessel insurance to Canadian fishing vessel owners and operators. This cover protects against the total or partial loss of vessels and/or electronic equipment and/or collision with another vessel. The governing regulations are PC1975-2938 and these provide for determining the premium rate for each individual vessel based on the anticipated risk. The minimum insurable value is $500 and there is no maximum limit.

(d) Fisheries Prices Support Board

8. The Fisheries Prices Support Board makes deficiency payments, when justified, to fishermen and processors whenever prices drop as a result of sudden marketing difficulties. During 1977/78, payments were made on smelt, Irish moss, mullet, cuttergrade whitefish and salted and dried codfish. The Board also purchased canned mackerel, canned herring, pickled mackerel and pickled alewives from Canadian processors for use in international food aid and development programmes.

(e) Temporary Assistance Programme

9. In the Atlantic groundfish industry, stocks depleted by overfishing, unusually high costs partly stemming from the energy crisis of 1973, and depressed markets produced heavy losses and forced producers toward bankruptcy. To avert a total collapse of the industry, the government undertook several initiatives to rehabilitate the fisheries, amongst them a new

fisheries management regime in the extended fisheries zone. While stocks were rebuilding over the next 5 to 10 years, and other programmes were taking effect, the federal Department of Fisheries and Oceans provided emergency "bridging" assistance to groundfish fishermen and processors during this transitional period until satisfactory stock recovery. Special assistance payments were made to groundfish fishermen and processors for first-quality fish landed and for first-quality fresh and frozen fillets and frozen blocks. With improvement in resources, market returns and prices to fishermen, the conditional grants to processors were terminated March 31, 1977 and payments to fishermen ended on September 30, 1978.

10. Under a separate part of the Programme, ad hoc fishing incentives were offered by the federal Department of Fisheries and Oceans to divert certain fishing effort to new areas and species and at the same time relieve pressure on stocks in traditional fishing areas, e.g. incentives to encourage large trawler vessels to fish outside the Gulf of St. Lawrence and in far northern waters. These incentives were terminated on March 31, 1978.

(f) Other Assistance Programmes

11. In addition to the above federal programmes, provincial governments of the five Atlantic provinces (Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island and Quebec) also operated a number of fishermen loans and grants programmes for construction and procurement of vessels and equipment. Interest rates and terms and conditions of these loans, loan guarantees and grants vary from province to province.

CANADA

MAJOR FEDERAL FINANCIAL ASSISTANCE TO THE FISHING INDUSTRY

Type of aid	1968/69		1978/79	
	Brief details	Amount provided	Brief details	Amount provided
Federal assistance for the construction of fishing vessels.	35% of the approved costs for a wooden vessel over 45 ft and less than 100 grt; 40% for a wooden vessel of 100 grt and over. Only available for Atlantic coast.	$1.3 million.	35% of the approved costs for vessels between 25 ft and 75 ft for coastal regions and between 16 ft and 75 ft for inland regions.	$11 million.
Federal insurance against the loss of fishing vessels.	Annual premium rates determined by appraised value of vessel.	Insurance in force: $76 million. Net premiums received: $526,000. Net claims paid: $489,000.	Annual premium rates determined by risk of each individual vessel. Minimum limit of $500, insurable value, no maximum limit.	Insurance in force: $156,000,000. Net premiums received: $5.4 million. Net claims paid: $3.3 million.
Federal guarantees for private loans to fishermen for financing the acquisition or repair of vessels, equipment and shore installations.	1977/78		Maximum amount of loans was $75,000, maximum repayment period 10 years and maximum interest rate is set at 1% over the prime lending rates of the chartered banks.	Guaranteed loans granted: $26.1 million.
	Maximum amount of loans was $75,000, maximum repayment period 10 years and maximum interest rate prescribed by Regulations.	Guaranteed loans granted $19.9 million.		
Fisheries Prices Support Board.	Purchase programmes: Canned mackerel, canned herring, pickled alewives. Deficiency payments: Smelt, Irish moss, Mullet, cutter-grade whitefish, salted and dried codfish.	Cost of purchase: $1.3 million. Sales and inventory: £1.3 million. Deficiency payments: $1.9 million.	-	-
Federal special assistance to groundfish fishermen and processors to overcome financial hardship during crisis and financial incentives to exploit non-traditional fishing areas.	Special assistance payments: up to 2¢/lb of landed groundfish to fishermen and up to 1¢/lb of eligible groundfish products to processors. Ad hoc fishing incentives: terms depending on the region.	$24 million (payments to processors were terminated 31 March, 1977 and payments to groundfish fishermen ended on 30 September, 1978; all fishing incentive programmes ended 31 March, 1978).	No longer applicable.	No longer applicable.

CANADA

MAJOR FEDERAL FINANCIAL ASSISTANCE TO THE FISHING INDUSTRY

Type of aid	1968/69		1978/79	
	Brief details	Amount provided	Brief details	Amount provided
Federal assistance for the construction of fishing vessels.	35% of the approved costs for a wooden vessel over 45 ft and less than 100 grt; 40% for a wooden vessel of 100 grt and over. Only available for Atlantic coast.	$1.3 million.	35% of the approved costs for vessels between 35 ft and 75 ft for coastal regions and between 18 ft and 75 ft for inland regions.	$11 million.
Federal insurance against the loss of fishing vessels.	Annual premium rates determined by appraised value of vessel.	Insurance in force: $78 million. Net premiums received: $576,000. Net claims paid: $89,000.	Annual premium rates determined by risk of each individual vessel. Minimum limit of $500. insurable value, no maximum limit.	Insurance in force: $154,000,000. Net premiums received: $5.6 million. Net claims paid: $3.3 million.
Federal guarantees for private loans to fishermen for financing the acquisition or repair of vessels, equipment and shore installations.	1977/78 Maximum amount of loans was $75,000, maximum repayment period 10 years and maximum interest rate prescribed by Regulations.	Guaranteed loans granted $18.8 million.	Maximum amount of loans was $75,000, maximum repayment period 10 years and maximum interest rate is set at 1% over the prime lending rates of the chartered banks.	Guaranteed loans granted $22.3 million.
Fisheries Prices Support Board.	Purchase programmes: Canned mackerel, canned herring, pickled alewives. Deficiency payments: Smelt, Irish moss, Mullet, cutter-grade whitefish, salted and dried codfish.	Cost of purchase: $1.3 million. Sales and inventory: $1.3 million. Deficiency payments: $1.9 million.	-	-
Federal special assistance to groundfish fishermen and processors to overcome financial hardship during crisis and financial incentives to exploit non-traditional fishing areas.	Special assistance payments: up to 2¢/lb of landed groundfish to fishermen and up to 5¢/lb of eligible groundfish products to processors. Ad hoc fishing incentives: terms depending on the region.	$34 million (payments to processors were terminated 31 March, 1977 and payments to groundfish fishermen ended on 30 September, 1978; all fishing incentive programmes ended 31 March, 1978).	No longer applicable.	No longer applicable.

SUMMARY OF RESULTS OF INQUIRY INTO IMPACT OF IMPORTED CANADIAN GROUNDFISH ON NEW ENGLAND MARKETS

In accordance with a request from a congressional delegation from Massachusetts, the General Accounting Office looked into allegations of New England fishermen groups who claim that a high level of imported, "cheap" Canadian groundfish (primarly cod, haddock, and flounder) are adversely affecting the fish markets in Boston, Gloucester, and New Bedford and keeping the prices their fishermen receive for domestically caught groundfish artificially low. We were asked to check out the basis of these complaints and to provide any information and documentation that might help clarify this issue.

We met with officials from several Federal agencies to obtain their views on conditions in the New England groundfishing industry, the impact of imported Canadian groundfish on the prices U.S. fishermen receive for their catches, and the availability of information and data that might document an impact. Our Federal contacts included National Marine Fisheries Service (NMFS) officials and U.S. Customs Service officials in Washington, D.C., and various locations in New England; U.S. International Trade Commission officials in Washington, D.C.; and Bureau of the Census officials in Washington, D.C. We also met with representatives of the Canadian Embassy in Washington, D.C.; the Canadian Consulate in Boston, Massachusetts; the New England Fisheries Management Council; and various New England fishermen groups, processors, and buyers, to obtain their views on these issues. (See app. I.) In addition, we reviewed relevant government and academic studies on these issues. (See app. II.) The results of our inquiry are discussed below.

SETTING PRICES FOR U.S. GROUNDFISH LANDINGS

According to the International Trade Commission and industry sources, the prices received by U.S. fishermen (known as ex-vessel prices) for whole groundfish landed and sold at New England ports are based on auctions held Monday through Friday at Boston and New Bedford, Massachusetts. The Boston auction tends to set the prices for cod, haddock, and certain other groundfish, and the New Bedford auction tends to set the prices for flounder and other flatfish. Fish landed at other New England ports are sold at prices based on the prices established at these auctions.

The Boston fish pier auction is conducted species by species and the price established for each species applies to all vessels. For example, if three vessels have haddock to sell, bids are taken on the three vessels' haddock simultaneously and each vessel would receive the same price per pound. The price may differ for haddock and schrod haddock and for large, medium, and schrod cod. NMFS publishes these prices in its Fishery Market News Reports (bluesheets). Buyers can limit their purchase to certain species and to specified quantities of each species. For example, a buyer can buy 4,000 pounds of large cod from a vessel that may have landed 7,000 pounds of large cod, 10,000 pounds of smaller cod, and 40,000 pounds of haddock, flounder, and other species.

The process at the New Bedford auction is different than in Boston. A timer is set and buyers begin bidding on all species on all vessels simultaneously. The buyers bid on the "catch" of each vessel and the last bidder to increase the bid for any of the species on a vessel before the ending bell gets that vessel's whole catch. Prices for the same species may therefore differ from vessel to vessel. For example, one vessel might receive $.40 a pound for its haddock while another receives $.45 a pound. We were told that, as a rule, the New Bedford prices for haddock and cod are lower than the Boston prices.

A NMFS official said that Gloucester prices generally range from $.05 to $.08 a pound under the Boston auction prices. He believes that Gloucester fishermen are paid less for their fish because the buyers and processors have to pay packing and handling and transportation costs associated with getting the fish to Boston, the area's primary distribution center. We were told that Portland prices are also generally $.07 or $.08 a pound less than the Boston prices.

Several buyer and fishermen representatives said that Boston fishermen sometimes receive less than the Boston auction price for their fish because of pressures applied by the buyers as the fish are being unloaded. They said that the auction prices apply only to first quality fish. If a buyer believes that the fish coming off a vessel are not first quality, he can force a reduction in the agreed upon auction price per pound which would not appear on NMFS bluesheets. We were told that such reductions in price are sometimes forced for good quality fish. We were also told that other problems sometimes reduce the income fishermen crews expect to receive for the quantity of fish landed. For example, a fisherman said that he no longer lands in Boston because carts of fish were stolen whenever he turned his back, and a processor said that buyers can get more fish than they pay for by paying off a vessel's captain.

Imported fish are not included in the auctions. Processors told us that Canadian fish are generally bought through U.S. brokers who accept the fish on consignment, sell them for as much as they can, and charge the Canadian firms a commission for their services. The processors agreed that Canadian fish generally sell for less than the Boston auction prices. We were told that when a truckload of fish arrives at the Boston fish pier, the U.S. broker usually calls the local processors and offers the fish at $.05 to $.10 a pound below the auction price. Some processors said that the price differential could be greater depending on the time of year, supply and demand, and quality of the Canadian fish. Two Maine processors mentioned that they had bought Canadian haddock through a Boston broker for $.25 or $.30 a pound less than the Boston auction price, but pointed out that such a large variance is unusual and generally the result of a "distressed sale" situation.

FISHERMEN VIEWS

The fishermen representatives we contacted said they believe that imports of fresh Canadian groundfish reduce the prices New England fishermen receive for their groundfish. One said that it just seemed obvious to him that truckloads of Canadian fish at the Boston fish pier discourage processors and buyers from bidding higher on U.S. fish sold at the auction. He was also convinced that the market for whiting, scup, and butterfish (the species primarily caught and landed at Point Judith, Rhode Island) is weakened by Canadian haddock and cod imported elsewhere in New England. However, they had no data to support their views.

Some said they know "by word-of-mouth" that U.S. buyers pay less for Canadian groundfish than they do for U.S. groundfish, but they could not get access to buyers' records to document and compare the prices paid. One argued that, according to the laws of supply and demand, the increased supply of groundfish from Canadian imports drives prices down. Another believes the proof of the impact lies in the amount of assistance the Canadian fishing industry receives. He said, however, that it would be very difficult to trace the impact on prices of a particular truckload of imported fish.

One fishermen spokesman also pointed out that U.S. processors and buyers are sometimes allowed 30 to 60 days to pay for Canadian fish but must pay for U.S. fish bought at the Boston auction within 24 hours. Thus, a processor or buyer could resell Canadian fish and collect payment from his customers before he has to pay the Canadian firm that sold him the fish. Such an arrangement may provide additional incentive to purchase Canadian fish.

The fishermen representatives particularly resented what they see as Canadian government assistance to its fishing industry. They believe that the subsidized Canadian industry places U.S. fishermen at a competitive disadvantage and suggested various ways to improve their competitiveness. Some said that tariffs, quotas, and/or countervailing duties should be imposed on imported groundfish. Some suggested that U.S. fishermen should be given a fuel subsidy, or guaranteed a base price for their fish. One said that if catch quotas for U.S. fishermen were eliminated the good fishermen would survive by increasing their catches but the inefficient fishermen would still be in financial trouble.

PROCESSOR/BUYER VIEWS

Most of the processors and buyers we talked to agreed that imports of Canadian groundfish tend to reduce the prices paid for U.S. groundfish. Most of them also told us that they usually pay less for Canadian fish than U.S. fish (see p. ?) but they would not show us records so that we could document and compare the prices. A Boston processor mentioned that haddock had sold at the auction for $.50 a pound one day in June when there was a truckload of Canadian fish on the pier, in contrast to $.62 a pound a day later when there were no trucks of Canadian fish around.

One processor told us he refuses to buy Canadian fish on principle and another said he does not buy Canadian fish because of his long-standing commitment to buy from local fishermen. The other processors and buyers said they buy Canadian fish either routinely, in the winter when supplies are short, or only when they cannot get enough U.S. fish to satisfy their needs. Many said they prefer U.S. fish because of the better quality. They pointed out that U.S. fish is handled better at sea and is fresher. Some said that Canadian fish produces a lower yield because of its inferior quality and is more expensive to process because it requires more trimming than U.S. fish.

Some of the processors and buyers expressed their views on what could be done to help minimize the problems affecting the groundfishing industry. Several believed the catch quotas should be either raised or eliminated to allow U.S. fishermen to increase their landings. One said that if quotas were eliminated, U.S. fishermen could catch more fish and compete in the frozen fish market. He also favored giving U.S. fishermen a fuel subsidy. Another said that the Government should eliminate quotas on U.S. catches and mount a marketing campaign to encourage consumers to eat more fish. One buyer favored placing a limit on imported Canadian fish. Another said that consumers would pay higher prices if restrictions were placed on imported groundfish.

NMFS VIEWS

Most of the NMFS field representatives we met with believe that imported Canadian fish reduce U.S. ex-vessel prices. One said he was convinced that truckloads of Canadian fish sitting on the Boston fish pier reduce the auction prices. Another explained that Canadian firms can sell their fish for less than U.S. fish because they have lower expenses and a favorable exchange rate. A third believes that imports of frozen fish have a greater impact on U.S. ex-vessel prices than imports of fresh fish, but because the impact is indirect, it is not readily apparent to the fishermen. None of these officials had any statistics or other documentation that would show an impact.

A NMFS analyst in Gloucester has been studying the impact of several factors, including fish imports, on U.S. ex-vessel prices. He said he had not completed his work but had noted certain observations. He modeled the impact of haddock and cod imports on haddock prices expecting to find that an increase in imports would decrease U.S. ex-vessel haddock prices. However, the model showed that increased imports also increased ex-vessel haddock prices. When he applied the model to cod, it showed that increased imports did decrease ex-vessel cod prices, but to a degree that was not statistically significant. The NMFS analyst said that, to his knowledge, no recent study has shown that imported Canadian fish cause a significant decrease in U.S. ex-vessel prices. However, he suspected that the various models used might not accurately represent the dynamics of the fish industry because, in his opinion, the industry is not well understood.

CANADIAN EMBASSY AND BOSTON CONSULATE VIEWS

The Canadian officials we met with said that the Canadian Government had a temporary assistance program which provided special assistance payments to groundfish fishermen and processors based on the volume of fish landed, first quality first-quality/fresh and frozen fillets, and frozen blocks. This program, which was implemented in the mid-1970s to prevent the fishing industry from collapsing from a depressed market and a multitude of other problems, was terminated in September 1978 after conditions improved. They said that the Canadian Government currently provides a low level of subsidies to its groundfishing fleet, primarily through grants, loans, and loan guarantees for the purchase, construction, replacement, repair, and modification of fishing vessels and equipment and shore installations. Some of the provincial governments also provide loan and grant programs. The officials noted that the United States has similar assistance programs.

The officials said that the Canadian Government does not subsidize diesel fuel for the fishing industry but provides certain tax exemptions. They explained that off-road vehicles, such as tractors, commercial fishing vessels, and recreational boats, do not pay the Federal excise tax and road tax which are included in the pump price of diesel fuel. According to the officials, the Federal excise tax is $.07 per Imperial gallon and the road tax (which varies throughout Canada) averages about $.21 per Imperial gallon. Therefore, diesel fuel, which the officials said cost $1.50 per Imperial gallon in June 1981, could have been purchased by fishing vessels and other off-road vehicles for $1.22 per Imperial gallon at that time as a result of these tax exemptions. They mentioned that an Imperial gallon is equivalent to about 1¼ U.S. gallons.

The Canadian officials said that, in their opinion, the prices of Canadian groundfish sold in the United States are not consistently lower than the prices of U.S. groundfish. They noted that the United States also exports groundfish to Canada and said that the fresh fish markets in Toronto and Montreal, Canada, are supplied by imports from the New England States. They believe that on certain days when large volumes of U.S. cod (in particular) are exported to Canada, the U.S. cod may be selling in the New England market at lower prices than the Canadian imported cod.

The Canadian officials pointed out that Canada and the United States are the major fish exporting countries. They said both countries should work together to expand the fish market. They suggested that a meeting of Canadian and U.S. fishermen and industry authorities might be useful to clarify "misunderstood" perceptions concerning Canadian financial assistance programs to its fishing industry and the impact Canadian exports of fish are "alleged" to be having on U.S. ex-vessel prices. They said that such a meeting might help to alleviate concerns that Canadian fish are being "dumped" on U.S. markets, adversely affecting U.S. ex-vessel prices. They believe it would also provide a forum for discussing mutual problems of both countries' fishing industries and demonstrating to the fishermen that the fish market has great growth potential and can be expanded to the benefit of both countries.

OTHER FACTORS AFFECTING NEW ENGLAND FISHERMEN

In our discussions with various individuals, several factors (other than imported fish) were cited as having contributed to the New England fishermen's financial difficulties. The following factors were frequently mentioned.

--Fuel prices have increased dramatically in the last few years substantially increasing fishermen's operating costs. A recent University of Rhode Island study 1/ pointed out that a near doubling of diesel fuel prices and a 20 percent increase in the price of ice from January 1979 to July 1980 have combined with declining real gross revenues to create a devastating squeeze on the net incomes of New England fishermen. A representative of a fishermen's association told us that it now costs about $4000 for a medium-sized vessel to go out on a 7 or 8-day trip.

--Establishing the 200-mile limit over U.S. fishery resources encouraged new vessel purchases, many of which were financed by mortgages with floating interest rates. A vessel owner who obtained an original interest rate of 10 percent may now be paying over 20 percent on the installments on his vessel mortgage. The higher interest rates have significantly increased many vessel owners' annual interest charges.

1/ "Current Developments in Ex-vessel Groundfish Prices," a study prepared by Professor Joel Dirlam and others at the University of Rhode Island as a result of research sponsored by NOAA's Office of Sea Grant, Feb. 1981.

--An increase in the number of New England fishing vessels competing for a limited quantity of fish (as established by quotas) has resulted in a smaller share of the catch for each vessel and kept some vessels from legally catching all the fish they otherwise could to offset high operating costs and low ex-vessel fish prices.

Some of the above views were also expressed by the U.S. International Trade Commission as a result of its recent investigations into the impact of Canadian imported fish. (See page 17.) The Commission concluded, among other things, that U.S. capacity to catch groundfish in terms of the number of fishing vessels has expanded in recent years, but conservation quotas on the east coast, the licensing of foreign vessels to fish within the 200-mile limits, and the sharing of the limited fishery resources among an expanded number of vessels left the potential fishery resources per vessel lower than it had been previously and may have prevented the U.S. fleet from operating at full capacity.

AVAILABILITY OF DATA ON THE BOSTON, NEW BEDFORD, AND GLOUCESTER FISH MARKETS

The Fishery Market News Report published every Monday, Wednesday, and Friday by NMFS' Boston office contains daily information on the volume of domestically landed groundfish at major New England ports and the ex-vessel prices for the Boston and New Bedford auction sales. The Friday report also includes a weekly summary of this information. These reports can be used to depict trends in U.S. landings and ex-vessel prices but they do not provide totally compatable data on each port. For example:

--The Boston data shows separate volumes and ex-vessel prices for haddock, scrod haddock, large cod, market cod, and scrod cod; whereas, the New Bedford and Gloucester data shows only the cumulative volume covering all sizes of haddock and the cumulative volume covering all sizes of cod.

--The New Bedford ex-vessel price data is reported in terms of the high and low price for each species and a weighted average by species and size cannot be determined.

--Gloucester ex-vessel price data is not included in the reports.

Sufficient data is not available on the volume and prices of imported Canadian groundfish sold in the New England ports to allow a meaningful comparison of the volume and price relationships between imported groundfish and U.S. groundfish landings at each port. Although the Fishery Market News Reports contain some occasional data on the volume of imported groundfish noted at certain ports at certain times, NMFS officials said that the data is very incomplete and unreliable because it represents shipments cleared through the Customs offices at those locations but not necessarily sold at those ports and shipments "spot checked" at the piers.

The Bureau of the Census maintains a foreign trade statistics program which provides monthly and annual statistical reports on U.S. imports and exports of various commodities, including fish and fish products. The data for this program is collected through various U.S. Customs Service forms and is then processed by the Bureau of the Census. NMFS headquarters maintains monthly statistical reports on imported fish and fish products based on data it obtains from the Bureau of the Census. These reports show the monthly quantity (volume) of fish imported into the United States from each country broken down by various classifications that indicate whether the fish are fresh or frozen, whole or fillets, etc. They also show the Customs district where the shipments were cleared after entering the United States and the Customs import value. However, the reports do not show the destination of the shipments or their selling prices. The import valuation is primarily used for collection of import duties and frequently does not reflect the actual transaction value. Also, the data for some species, such as haddock, is combined with data for other species in the same groupings and cannot be separately identified.

The Customs district office that clears an import shipment maintains the source documents used for the monthly statistics. Canadian groundfish is generally trucked across the border through Maine and cleared in the Portland Customs district office, although some shipments are cleared at other Customs district offices. We were told that within 10 days after entry, a Customs form describing the cargo and a payment of estimated duty must be submitted to the appropriate Customs district office. When Customs officials are satisfied that the correct duty has been paid, they "liquidate" the transaction by filing the form and associated documents. Liquidated transactions are filed by liquidation date. Shipments of whole fish are liquidated quickly because there is no duty on whole fish, but shipments of fish fillets can take months or much longer to be liquidated.

A review of the Customs documents would provide more data on imported groundfish, but it would be very time consuming and would not provide all of the information necessary to make meaningful comparisons with U.S. groundfish landings and ex-vessel prices. A Customs official said that the Portland office processes over 60,000 forms a year on imported commodities and that a review of all the forms processed for a year would not necessarily identify all shipments of fillets imported on a given day. Since fillets represent a major portion of fish imports from Canada, it would be of little use to obtain data on whole fish alone. The Customs official also said that the forms are confidential.

PAST INVESTIGATIONS BY THE FEDERAL GOVERNMENT

The issue of foreign competition with the U.S. groundfishing industry has been a long-standing and controversial concern. The domestic groundfishing industry petitioned the Federal Government unsuccessfully for relief from imports of Canadian groundfish several times in the 1950s and in the past few years.

The earlier investigations were conducted by the U.S. Tariff Commission. In 1952, it concluded that there was insufficient evidence of actual or threatened injury to the domestic industry by imports and decided not to recommend any restrictions on groundfish imports. In its 1954 and 1956 investigations, the Commission recommended that the President impose increased duties on imported groundfish fillets, but the President declined to follow the Commission's recommendations.

The more recent investigations were conducted by the Department of the Treasury and the U.S. International Trade Commission. During the late 1970s, the Treasury made three separate investigations and determined that the Canadian Government had given benefits to its fishing industry which constituted bounties or grants under the countervailing duty law on the exportation of certain fish. In each case the Treasury waived the assessment and collection of countervailing duties that would otherwise have been applicable to U.S. imports of the dutiable fish covered by the investigation because, among other reasons,/of the Canadian Government's actions to significantly reduce the bounty or grant.

The U.S. International Trade Commission conducted four investigations in 1978, 1979, and 1980, and concluded in each case that the U.S. fishing industry has not been seriously injured or threatened by imported Canadian groundfish. These investigations, which resulted from complaints filed by certain fishermen's associations, emphasized that information and data was not available to substantiate any adverse effect. The Commission issued a publication (see app. II) on each investigation which includes discussions of the Commissioners' views and determinations and an analysis of the data obtained. These publications are good sources of information on the activity of the domestic market, Canadian imports, and the subsidies provided by the Canadian Government to its fishing industry.

DEPARTMENT OF STATE
Washington, D.C. 20520

November 9, 1981

Mr. William Stelle
Subcommittee on Oversight
of Government Management
3306 Dirkson Senate Office Building
Washington, D.C. 20510

Dear Mr. Stelle:

Per our conversation I attach some material relating to Canadian subsidization of Canada's fishing industry.

We expect an Airgram from Halifax in the near future and I will send it along to you when I have it.

Sincerely,

William Newlin
William Newlin
Office of Canadian Affairs

Attachments:
As stated.

1. AS NOTED REFTEL GOC PLANS, EFFECTIVE APRIL 1, 1981, TO ESTABLISH TWO-TIER PRICING SYSTEM FOR DOMESTIC AND INTERNATIONAL BUNKERING SUPPLIES INCLUDING HEAVY FUEL OIL, MARINE DIESEL GAS OIL AND AVIATION FUELS. THE IMPACT OF THESE PROPOSED CHANGES WILL BE CONCENTRATED IN CIVIL AVIATION (SEE SEPTELS) AND COMMERCIAL FISHERIES

2. UP TO NOW ALL FOREIGN AND CANADIAN FISHERMEN PURCHASING FUEL IN CANADA HAVE HAD EQUAL ACCESS TO CANADA'S ARTIFICIALLY LOW FUEL PRICES, MAINTAINED AS A PART OF CANADIAN OVERALL POLICY WHICH ATTEMPTS TO ISOLATE CANADA FROM WORLD ENERGY PRICES. THIS LED TO CRITICISM THAT CANADA WAS SUBSIDIZING FOREIGN AVIATION MARINE OPERATORS AND FISHERMEN AND THE DECISION TO ESTABLISH A TWO TIER PRICING SYSTEM FOR DOMESTIC AND INTERNATIONAL OPERATORS. IN THEORY THE CANADIAN SYSTEM IS NON-DISCRIMINATORY BY NATIONALITY BUT IN FACT VIRTUALLY ALL CANADIAN FISHERMEN WILL PAY THE LOWER PRICE WHILE FISHING IN THE 200-MILE DOMESTIC WATERS ZONE AND ALMOST ALL FOREIGN FISHERMEN WILL PAY THE HIGHER PRICE SINCE BY DEFINITION THEIR VOYAGES WILL BE INTERNATIONAL. IN THIS REGARD, WE UNDERSTAND THAT ONLY FISHING VOYAGES THAT DEPART FROM A CANADIAN PORT, FISH IN THE CANADIAN 200-MILE ZONE AND RETURN TO CANADIAN PORTS WILL BE CONSIDERED DOMESTIC. IF VOYAGES GO OUTSIDE THE 200-MILE ZONE OR GO TO A FOREIGN PORT (AS WOULD BE THE SITUATION FOR U.S. FISHING VESSELS THAT UNLOAD THEIR CATCH AT U.S. PORTS) THEN THE VOYAGE WILL BE CONSIDERED INTERNATIONAL AND THE INTERNATIONAL PRICES FOR FUEL WILL BE CHARGED

3. IT IS DIFFICULT TO COMPUTE THE PRICES WHICH ARE LIKELY TO EXIST ON APRIL 1, 1981 BUT THE "DOMESTIC" PRICE OF DIESEL OIL SEEMS LIKELY TO AVERAGE ABOUT 63 US CENTS PER US GALLON WHILE THE "INTERNATIONAL" PRICE WILL PROBABLY BE ABOUT 98 US CENTS PER GALLON. THESE ESTIMATES ARE BASED ON INFORMATION PROVIDED BY THE NATIONAL ENERGY BOARD. WE UNDERSTAND THAT THE US DIESEL PRICE IS CURRENTLY ROUGHLY 95 CENTS - 1.05 CENTS PER US GALLON AND IS EXPECTED TO INCREASE SHARPLY IN THE COMING MONTHS. WHILE THE CANADIAN DOMESTIC PRICE WILL INCREASE, IT WILL NEVER REACH THE INTERNATIONAL LEVEL WHICH WILL ALSO INCREASE AND MOST OBSERVERS BELIEVE THAT THE GAP BETWEEN THE TWO PRICES WILL INCREASE OVER TIME.

4. FEDERAL SUPPORT PROGRAM (CANADA)

(i) Fisheries Development Act

Regulations made pursuant to sections 5 and 9 of the Act under which relevant "Fisheries and Oceans" programs and administered:

- Fishing Vessel Assistance Regulations (P.C. 1970-1398 5th Aug 1970)
- Fish Chilling Assistance Regulations (P.C. 1973-4029 as amended P.C. 1975-106)
- "Payment of subsidies to owners of newly-constructed vessels under the Fishing Vessel Assistance Regulations;
- "Shared cost contributions to various provincial fisheries administrations toward agreed provincial fisheries development programs arranged primarily in accordance with Section 3 of the Act;
- "Contracting for services in respect of technology development projects under Section 3 of the Act;
- Fish Chilling Assistance Program;
- Rehabilitation programs for fishing industry"

See Enclosure I (13 tables)

8.(c) See enclosed brochures and report:

"Fisheries Improvement Loans" (Fisheries and Oceans Canada)	(Enclosure 2)
"Fishing Isn't Just Another Job" (Employment and Immigration Canada)	(Enclosure 3)
"Annual Report 1980 - Maritime Region" (Fisheries and Oceans Canada)	(Enclosure 4)

5. PROVINCIAL ASSISTANCE:

The provincial governments of Nova Scotia, New Brunswick, Newfoundland and Prince Edward Island provide extensive support to all sectors of their fisheries. For discussion, the various programs can be grouped into three main categories: support to infrastructure and market development, tax exemptions, and loan subsidies.

5(A) New Brunswick

Assistance to fisheries in New Brunswick is governed by the Fisheries Development Act of 1977, as amended in 1979. See enclosure 5.

(1) Infrastructure and Market Development - Enclosure 6 contains a breakdown of the assistance programs provided by the New Brunswick Department of Fisheries. Although the statistics are not up to date, the document shows the extent of provincial government involvement in the fishing industry of New Brunswick.

(2) Tax Exemptions - New Brunswick commercial fishermen are exempt from provincial fuel taxes. The exemption applies not only to gasoline and diesel fuel used to power fishing boats, but also to propane and other fuels used to heat the vessel or operate equipment onboard. Commercial fishermen are also issued tax exemption numbers which they may use to avoid paying New Brunswick's eight percent sales tax on fishing gear and a long list of other products used in the fishing industry.

(3) Loan Subsidies - The New Brunswick Fisheries Development Board provides direct loans up to an amount of CDOLS 25,000 per application to "aid and encourage the establishment or development of fisheries in the province". The interest rate on direct loans is set at one half the provincial lending rate except in instances where the net worth of the borrower is sufficient to support a smaller interest incentive. In the latter case the interest rate is set at one and one half percent below the provincial lending rate. Direct loans are now available at an interest rate of nine and one quarter percent. Loans for amounts over CDOLS 25,000, forgivable loans, guaranteed loans and grant applications must be approved by the Lieutenant-Governor in Council. Total loans during fiscal 1980 amounted to CDOLS 10,302,313. Enclosure 7 provides specific information on the distribution of financial assistance during 1980.

5(B) Newfoundland

(1) Infrastructure and Market Development - The province of Newfoundland

provides a wide variety of assistance programs to the provincial fishing industry. These include: programs aimed at developing markets for Newfoundland's fish products; training programs for fishermen and those employed in fish processing; and programs to fund technological, biological and other types of research.

(2) Tax Exemption - Newfoundland commercial fishermen are exempt from provincial fuel taxes. The exemption applies not only to gasoline and diesel fuel used to power fishing boats, but also to propane and other fuels used to heat the vessel or operate equipment on board. Commercial fishermen are also exempt from paying the eleven percent provincial sales tax on fishing gear and an extensive list of other items used in the fishing industry.

(3) Loan Subsidies - The Newfoundland Fisheries Loan Board, under the Fishing Vessel Assistance Plan, provides three basic types of assistance: 1) Direct loans to fishermen by the Fisheries Loan Board (CDOLS 1,000 to 50,000), 2) Guaranteed loans by Chartered Banks (CDOLS 50,000 to 1,000,000), and 3) Bounties on new construction, rebuilding and repair of fishing vessels. Direct loans to fishermen are offered at an interest rate of eight percent. For specific information on interest rates, repayment terms, eligibility for loans, and bounties see enclosure 8. The Newfoundland Fisheries Loan Board had approved or had pending applications for 831 loans amounting to CDOLS 10.3 million at the end of fiscal 1980. Chartered Banks had approved or had applications pending for CDOLS 9.5 million during the same period (total of 53 loans).

5(C) Nova Scotia

The "Fisheries Development Act of 1978" establishes the legal authority in Nova Scotia for all provincial Department of Fisheries support programs, and for the Fishermen's Loan Board.

(A) Infrastructure and Market Development - Enclosure 9 provides a by-program breakdown of the Nova Scotia Department of Fisheries, showing that the department provides a full range of training; market development services; and biological/technological R & D. Specific programs offer financial incentives on a cost-shared basis for fleet development, technology development, shore-based facilities, product quality improvement and aquaculture promotion.

(2) Tax Exemption - The provincial government exempts commercial fishermen from the 8 percent health service (sales) tax on all normal fishing gear and equipment. Fishermen are also exempt from (or have rebated) the provincial tax on gasoline and diesel used to operate a vessel in the

commercial fishery. The provincial tax exempted amounts to CDOLS 0.047 per liter, about CDOLS 0.1786 per US gallon. Enclosures 10 and 11.

(3) Loan Subsidies - The provincial Fishermen's Loan board makes loans to individuals, co-ops and companies to purchase or build new boats, engines conversion or technical modification, and development of aquaculture. Canadian citizens residing in Nova Scotia who have been licensed as a commercial fisherman for two years are eligible for loans. Loans are made for a maximum of 12 years and require a 10 percent down payment. Interest rates for smaller boats are 10 percent; interest rates for boats over 65 feet are 1 percent above the government lending rate. About 1200-1400 loans are made each year. The value of outstanding loans is well over CDOLS 100 million. The interest differential (direct subsidy of the Fishermen's Loan Board) for the province's 1980-81 fiscal year is CDOLS 11.5 million. See enclosure 12.

5(D) Prince Edward Island

(1) Infrastructure and Market Development - Enclosure 13 is a by-program breakdown of the PEI Department of Fisheries. The department is funded to provide a full range of incentives, programs for market development, quality improvement, and biological/technological R & D. Emphasis on PEI (where lobster amounts to two-thirds of the value of total catch) is on quality improvement and market development, rather than taking more volume.

(2) Tax Exemption - The PEI provincial government exempts commercial fishermen from gasoline and diesel tax for operating a fishing vessel. The tax exempted amounts to about CDOLS 0.17 per Imperial gallon. Commercial fishermen are also exempted from the 10 percent provincial sales tax on fishing gear and equipment.

(3) Loan Subsidies - The PEI Vessel Subsidy Construction Program provides a 15 percent direct grant, to a maximum of CDOLS 2000, for the purchase of a new fishing vessel built in PEI. Total subsidies for this program in the province's 1981 fiscal year amounted to CDOLS 818,500.

WILSON

TO: EUR/CAN - Bill Newlin
FROM: EMB CANADA - Peter Lande

In a 1981 official Provincial Commission Report on the P.E.I. fishery it is stated that:

> "It appears that on the basis of 1978 figures, total government assistance including administration, and Unemployment Insurance payments, amounted to atleast half the value of landings of all types of fish. If fishermen and processors were to bear the full cost of these services, they would not be able to catch or to process fish."
>
> ("Report on Commission of Enquiry into the P.E.I. Fishery, January 16, 1981, p III-3)

Assuming this official estimate for P.E.I. were generally applicable to the other Maritime Provinces and to Newfoundland, one should expect a conclusion that government assistance in Eastern Canada would significantly affect the export price of fish sold to the United States, a principal Eastern Canadian fish export market.

Canadian Fisheries Policy–Canadian Lobster Imports and the New England Lobster Industry

Nancy L. Hasselback
Joel B. Dirlam
John M. Gates

Economics
Resource Economics
NOAA/Sea Grant

University of Rhode Island
Marine Reprint No. 127

Reprinted from *Marine Policy* 5(1):40-51 (1981).

This publication is the result of research partially sponsored by NOAA Office of Sea Grant, U.S. Department of Commerce, under Grant #NA79AA-D-00096. The U.S. Government is authorized to produce and distribute reprints for governmental purposes notwithstanding any copyright notation that may appear hereon.

Additional copies of this publication are available from URI, Marine Advisory Service, Publications Unit, Bay Campus, Narragansett, RI 02882.

P 896 3/81 200

Canadian fisheries policy

Canadian lobster imports and the New England lobster industry

Nancy L. Hasselback, Joel B. Dirlam and John M. Gates

The authors describe the subsidies received by Canadian lobster fishermen and the effects of lobster imports from Canada on ex-vessel price and earnings of US lobster fishermen. Returns to labour and management for a representative lobster fisherman under alternative import conditions are projected, and probable economic effects of a countervailing duty policy are discussed.

This article describes the subsidies received by Canadian lobster fishermen and the effects of lobster imports from Canada on ex-vessel price and earnings of US lobster fishermen. The Tariff Act of 1930 as amended by the Trade Act of 1974 provides a relief to the domestic industry for unfair competition in the form of a countervailing duty on imports:

> Whenever any country, dependency, colony, province, or other political subdivision of government, person, partnership, association, cartel, or corporation, shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article or merchandise manufactured or produced in such country .... then upon the importation of such article or merchandise into the United States .... there shall be levied and paid, in all cases, in addition to any duties otherwise imposed, a duty equal to the net amount of such bounty or grant, however the same be paid or bestowed.[1]

In the case of a non-dutiable item, such as lobster, the Trade Act requires the US International Trade Commission (USITC) to make a determination that 'an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation'.[2] The results of this article may be useful in determining the applicability of this law to imports of Canadian lobsters.[3] First, Canadian subsidies are described and estimated for a typical lobster operation to determine the magnitude of a potential countervailing duty. Injury can be measured by a loss of income to US fishermen traceable to imports. To measure loss, a US ex-vessel price prediction equation was estimated. From this relationship, the price-dampening effect of Canadian lobster imports can be measured.

Supply of lobsters to the USA consumer is derived from two sources: US landings and imports of Canadian lobsters, chiefly into New England. Lobsters may vary considerably in supply throughout the year, resulting in predictable price fluctuations. The seasonal patterns of supply are described to measure the impacts on the ex-vessel price of lobsters. The monthly ex-vessel price to US fishermen is projected for a 100% reduction in Canadian imports. The associated ex-vessel price increases and aggregate gross revenue increases to US fishermen are then calculated. By linking such information with cost and revenue studies it was possible to project

The research on which this study is based was sponsored by the Massachusetts Lobstermen's Association, Massachusetts Institute of Technology Sea Grant and Rhode Island Sea Grant Programs and the RI Agricultural Experiment Station (Contribution No 1936). The econometric model was specified and estimated by J. Gates, M. Waldheger, and N. McKinstry using the facilities of the Academic Computer Center at the University of Rhode Island, Kingston. Bronwyn Hall, 'TSP: Time Series Processor (version 2.7)', Technical Paper No 12, Harvard Institute of Economic Research, Cambridge, MA, 1975.

---

[1] Section 331 of the Trade Act of 1974, amending Section 33(a) (1) of the Tariff Act of 1930. The Trade Act of 1974 has been replaced by the Trade Agreements Act of 1979, under which countervailing duties may be imposed only if there is a 'material' injury, and preliminary investigation is carried out by the Department of Commerce rather than the Treasury.

[2] Trade Act of 1974, Section 303(b) (6) (a).

[3] In this article, all references to lobster are to *Homarus Americanus*. Adjectives 'American' and 'Canadian' lobsters refer to the country of capture.

0308-597X/81/010040-12 $02.00 © 1981 IPC Business Press

returns to labour and management for a representative lobster fisherman under alternative import conditions. Because the relevant policy option is a countervailing duty, some plausible effects of such a duty are discussed.

Canadian fisheries policy

General fisheries policy

Various subsidy and protectionist measures are the rule, rather than the exception, in fisheries policies of various nations. Because such policies are ubiquitous the specific issues described and analysed in this article are also representative of a class of such issues that is global in distribution.

The Canadian federal government has primary responsibility for regulating and controlling the fisheries of Canada. This responsibility can be delegated, and has been expressly done so by legislation for Quebec. The Atlantic provinces have presented continuing policy dilemmas to the federal government during recent decades because of chronically depressed fishermen's incomes and seasonality of employment. Groundfish catches dropped significantly, especially during the period when foreign fleets harvested large fractions of groundfish stocks.

During 1974-76, Atlantic fishermen suffered a precipitous fall in income which, in part, stimulated development of a long-term plan to restore fisheries in the region. The plan included limited entry programmes and a restructuring of major fisheries.[4] In this restructuring, major emphasis has been placed on groundfish and herring. There has already been a major shift from industrial use to food use of herring caught in the Bay of Fundy. Canadian entry restrictions and catch limits on domestic and foreign vessels in the Canadian 200 mile zone have been followed by increased Canadian harvests and incomes to fishermen.[5]

The Canadian lobster fishery has been subject to controls of various types for a long time. The 'districts', between which seasons or size limit differences exist, were established so long ago that authorities cannot say precisely when. Seasonal restrictions were introduced more than a century ago.[6] There are 24 districts and sub-districts, including offshore, and 18 seasons.[7] The number of traps per fisherman is also prescribed by district with the Category A Licence maxima generally three (or more) times the number allowed for Category B and C Licence holders.[8]

Federal government policy towards lobster fishing includes, besides vessel construction subsidies described below, a long-term programme to reduce fishing effort by buying back licences. The programme is funded for Nova Scotia, which produces the largest amount of lobsters, and New Brunswick, which ties with Prince Edward Island as the second largest producer. Fishermen who participate in this programme receive a payment equal to one year's landed value plus 20%.[9]

Another aspect of policy in the Canadian lobster fishery is the determination of the open seasons. As will be developed later, this has notable consequences for seasonal price patterns in the USA. Seasonal closures were first introduced to protect lobsters during the moulting, egg laying and hatching seasons. They were 'adjusted and shortened in an attempt to reduce the rate of exploitation'.[10] Other

---

[3] R D S Macdonald, 'Inshore fishing interests on the Atlantic coast: their response to extended jurisdiction by Canada', *Marine Policy*, Vol 3, No 3, 1979, pp 171-189.

[4] A review of Atlantic provinces problems, centering mainly on groundfish, may be found in *Policies for Canada's Commercial Fisheries*, Environment Canada, Ottawa, 1976. Subsequent policy developments appear in Romeo Leblanc, 'Notes for a speech to the Fishery Ministers of the Atlantic region', Moncton, New Brunswick, 10 November 1978; 'Notes for remarks at the federal–provincial conference of First Ministers on the Economy', Ottawa, 29 November 1978; 'Notes for a speech to the Newfoundland Fishermen Food and Allied Workers Union', 4 December 1978; and 'Notes for a speech to the Board of Trade', Halifax, 26 January 1979. The 1980 groundfish plan provides for quotas and trip limits.

[6] Environment Canada, 'Lobster Fishery Task Force Final Report Summary', April 1975, p 13. See also A. Gordon Dewolf, 'The lobster fishery of the maritime provinces: economic effects of regulations', *Bulletin* 187 of the Fisheries Research Board of Canada, 1974.

[7] Fisheries and Oceans Canada, 'Lobster fishing districts open seasons', revised to 1 January 1979.

[8] Fisheries and Oceans Canada, Maritimes Region, *Fishermen's Information*, 1979, pp 60-61.

[9] Fisheries and Environment Canada, 'Federal aid to lobster fishermen', 29 July 1978; 'Lobster buy back program successful', 22 January 1979; and Fisheries and Oceans Canada, 'Lobster vessel certificate retirement program, NB–NS'. In lobster District 5A (Guysborough, Nova Scotia), over 68% of certificates had been retired. It should be noted that lobster landings in these districts were insignificant fractions of the total. However, the largest *number* of certificates retired was in District 4, where by far the largest tonnage of lobsters is landed. Cf Statistics Canada, *Fisheries Statistics, Nova Scotia 1975*, Table 4, Landings, Quantity and Value by District, 1976.

[10] Environment Canada, 'Lobster Fishery Task Force Final Report Summary', April 1975, p 13.

considerations such as availability of employment were also taken into account. The Task Force recommended that the Canadian seasons should be set so as to take advantage of variations in the US supply; most US lobsters are landed during the summer and early autumn. Therefore, the Task Force recommended taking 'advantage of high prices' by adopting a mid-November–mid-June season in those Canadian waters, from Grand Manan, New Brunswick, to Cole Harbour, Nova Scotia (west of Halifax), where fishing can take place in the winter and early spring. This is effectively the season that now prevails in this highly productive area.[11] East of Cole Harbour, the Task Force recommended a season beginning in April (the earliest month in which it is possible to go out in these waters) and closing on 30 June. Actually, the season now permitted is shorter for some of these Nova Scotia districts, but begins on 10 April and lasts until 30 June for Halifax and Guysborough.[12]

By far the largest share of Canadian lobsters exported to the USA comes from Nova Scotia. Policies designating the harvesting season for Nova Scotia and New Brunswick with a view to landing the lobsters in the season when prices are highest have various implications, as will be seen later for the seasonal pattern of prices and incomes to US lobster fishermen. Conversely, from the consumer viewpoint, there is something to be said for imports which coincide seasonally with periods when marginal value to consumers is the greatest.

Subsidy programmes

Subsidies in the forms of direct financial aid and low-interest loans are available from both federal and provincial levels, in addition to tax exemptions and various service programmes. These subsidies substantially reduce the costs of acquiring and operating a lobster vessel in Canada.

Federal subsidies. The 'Fishing Vessel Construction Assistance Program' is administered by the Fisheries and Marine Service of the Department of the Environment. A non-repayable grant of 35% of the construction cost of a vessel is available, provided the vessel is a minimum of 30 ft long and is not operated solely in a limited entry fishery. The inshore lobster fishery has had a limited entry programme since 1967. Restrictions limiting the season to two or three months, or six months in southern Nova Scotia, and the prohibition against a vessel fishing in more than one district force a lobsterman to pursue other fisheries, such as hooking and long-lining, thus making him eligible for the grant.

Beginning in 1955, the Fisheries Improvement Loan Act, administered by the Department of Finance, has guaranteed loans of up to $50 000 made to fishermen by private banks. Interest rates have varied over the years but remain considerably below unsubsidized market rates. Loans are available for purchase or repair of a vessel or gear and can be repaid for a period of up to ten years.

Unemployment insurance is available to Canadian lobster fishermen whether self-employed or working for someone else. Benefits vary according to the length of time employed and the time of year of employment. A fisherman receives two-thirds of his salary with a maximum of $133/week. He may earn up to 25% of the benefit

[11] In District 1, New Brunswick, the open season in 1979-80 was from the second Wednesday of November to the third Thursday in June; in District 4, it was the last Tuesday in November to 31 May 1979. Fisheries and Oceans Canada, Maritimes Region, *Fishermen's Information*, 1979, pp 49 and 52. See also J.B. Rutherford, D.G. Wilder and H.C. Frick, 'An economic appraisal of the Canadian lobster fishery', Fisheries Research Board of Canada, *Bulletin* 157, Ottawa, 1967, p 87.

[12] *Ibid.*

without any reduction in his unemployment claim. An illness benefit is available in case of illness or injury.

Lobster fishermen are exempt from sales tax on vessels and most types of gear, a tax which ordinarily would be 8%. Tax-free gear includes lobster pots, line, buoys, salt, electronics, engines, and most other equipment necessary to run an operation. A substantial subsidy exists in the exemption of sales tax on diesel fuel and gasoline. Fishermen do not pay the provincial gasoline sales tax, the retail sales tax on gasoline and diesel fuel or the federal excise tax on either fuel. In 1976 the amount saved by fishermen was $0.39 on a gallon of diesel fuel.[13]

Provincial subsidies. Provincial subsidy programmes are available in Nova Scotia, Prince Edward Island, Newfoundland, and New Brunswick – the Atlantic lobster harvesting regions of Canada. Programmes differ according to maximum funds available, interest rates and payment periods. Interest rates are generally five or six percentage points below the prevailing market rate.

In Nova Scotia loans may be provided, under the Fishermen's Loan Act, for up to 90% of the cost, after deducting the federal grant, of purchasing or building a vessel, installing an engine or converting or outfitting an existing boat. A fisherman wishing to take advantage of the Nova Scotian loan to build a lobster boat must currently own a boat at least eight years old that he is replacing. The lobster fisherman must have at least two years of commercial fishing experience and provide security for the loan. The interest rate is 6.5% for a vessel 30-45 ft long, compared to 12% in unsubsidized loan markets.

The Prince Edward Island Lending Authority administers loans for purchasing new and used vessels, engines and gear at an interest rate of 6.5% with 15% down-payment for a vessel qualifying for the federal subsidy and 30% down-payment for a non-qualifying vessel. Costs incurred at the start of a fishing season are also covered by a fund providing operating credit, easing the initial period of low income.

Newfoundland lobster fishermen may take advantage of an interest rate as low as 3.5% from the Newfoundland Fishermen's Loan Board. In addition a new fund has been set up providing a non-repayable grant of 15% of the cost of vessel construction in addition to the 35% grant offered by the federal government.

The New Brunswick Fishermen's Loan Board has provided loans at an interest rate of 5% for the purpose of purchasing new and used vessels, engines and gear. Up to 75% of the net cost after the federal subsidy may be borrowed at this low rate.

All the Atlantic provinces provide comprehensive training programmes to assist fishermen while paying training allowances. Courses are offered in general fishing, navigation, electronics, hydraulics, and small business management. Facilities are used by existing fishermen upgrading their skills in addition to new entrants to the industry.

Effects of subsidies on cost structure of a typical vessel

In translating these subsidies into cents per lb for a typical lobster vessel, a conservative estimate has been made including only the 35% non-repayable grant made by the federal government and the low interest loan available from the provincial government. Both these

---

[13] Harold J. Kyte and Wayne H. Meserve, 'The impact of subsidies on Canadian–American fisheries: an obstacle to joint management?', University of Maine, Orono, Maine, 1978, p 39.

Table 1. Estimated effects of subsidies on annual fixed costs of a representative Nova Scotian lobster boat.

Item	Estimated annual cost	
	No subsidy $	*Subsidy* $
Interest on average value net of federal subsidy	1 500[a]	950[c]
Depreciation	6 250	4 063
Opportunity cost of equity	1 875[b]	244[d]
Total fixed costs	9 625 5 257	5 257
Estimated subsidy	4 368	
	Percent cost allocation to lobsters	
	100%	60%
Vessel landing levels	**Subsidies per lb**	
15 000 lb	$0.29	$0.17
20 000 lb	$0.22	$0.13

[a] Interest ≃ average value of loan ≃ $12 500 • 12% interest ≃ $1 500.

[b] Annual opportunity cost ≃ average equity ≃ $12 500 • 15% opportunity cost ≃ $1 875.

[c] Interest ≃ average value of loan ≃ $14 623 • 6.5% interest ≃ $950.

[d] Annual opportunity cost ≃ average equity ≃ $1 625 • 15% opportunity cost ≃ $244.

subsidies have been recognized by the Department of Treasury as constituting a bounty or grant under the Countervailing Duty Law.[14] Subsidies in the forms of sales tax exemptions on gear and fuel, unemployment benefits, lobster pot insurance programmes or training benefits have not been included. As an example, a new vessel constructed in Nova Scotia was chosen because a large percentage of lobsters sold live are harvested in Nova Scotia.

A typical vessel in the Nova Scotia lobster fishery in 1977 was between 40 ft and 42 ft long and cost between $45 000 and $50 000.[15] Average catches for recent years have been between 15 000 lb and 20 000 lb for a season which extends from the end of November to the end of May for southern Nova Scotia.[16] To contrast a subsidized vessel with a non-subsidized vessel the following assumptions are made:

- Vessel cost is $50 000, including engine and electronics.
- Depreciation is spread over eight years, the necessary minimum age at which a vessel can be replaced by one qualifying for the provincial loan.
- Vessel with subsidy borrows 90% of cost, net of federal subsidy, at 6.5% interest.
- Vessel without subsidy borrows 50% of cost at 12% interest.
- Owner's equity is 50% of vessel cost on non-subsidized and 10% of cost of subsidized vessel, and in both cases has an opportunity cost of 15%.
- The range in vessel costs attributable to lobster fishing is from 60% to 100%.

With these assumptions, the effects of subsidies on fixed costs of a representative Nova Scotian lobster boat were estimated (Table 1).

The magnitude of the unit subsidy ranges from $0.13-0.29/lb; depending on vessel catch rate and the cost allocation percentage. Unfortunately, all cost allocation formulae, except marginal or incremental costs, are arbitrary. Consequently, the numbers are only suggestive of a legally relevant range. The 60% allocation was chosen based on the percentage of operator time spent lobstering *v* other fishing activities.[17] Presumably the 'correct' percentage allocation should be higher for vessels with larger catches because these vessels tend to be full-time lobster fishermen. Hence a range of $0.17-0.22 would perhaps be reasonable.

---

[14] US International Trade Commission, 'Certain fish from Canada', Washington, DC, 1978, p A-12.

[15] Verbal communication from Nova Scotia boat builder.

[16] Department of Fisheries, Province of Nova Scotia, 'Costs and earnings of selected fishing enterprises, Nova Scotia, 1977', Ottawa, 1978, p 8.

[17] Rutherford *et al*, *op cit*, p 33.

While a 'correct' resolution of the cost allocation issue is perhaps impractical, it is also, as we shall see later, less relevant than export supply price elasticities and some broader policy considerations of economic benefits.

US lobster market

Market description

Seasonal fluctuations in supply, and thus price, are accounted for by natural migration patterns of lobsters and by a system of open and closed seasons in Canada. Dealers have adapted to the predictable changes in supply by using holding pens, termed 'pounds', in which lobsters are stored in anticipation of higher prices or to protect a weak product, unsuitable for shipping. Pounds play a more important role in Canada, where holding capacity exceeds three million lb. This study examines US ex-vessel price behaviour; therefore, it is immaterial whether or not an imported lobster has been stored before being imported. The significance of the lobster pounds lies in their potential effect on the seasonal price elasticity of supply of Canadian imports. In recent years, an average of 1.6 million lb of lobster have been stored per year in the USA, a negligible amount compared to total landings of 25 million lb. For the most part, US supply affects the market price soon after landing.

US landings peak in August and September, a direct relationship to increases in water temperature. As the water warms, lobsters begin to move into deeper water and moult in late summer or early fall. After moulting, a lobster is vulnerable and inactive until its shell hardens. At the end of this inactive period it is hungry, starts moving, and is easy to trap. For the years 1974-78, 50% of all US landings were caught in the months of August, September and October. In contrast, Canadian supply increases earlier because of a system of strictly regulated seasons, initially implemented for conservation purposes, yet since recognized as having little conservation value. The restricted seasons do, as noted earlier, capitalize on high prices in the US market.[18] Total Canadian landings have averaged around 36 million lb in the past ten years. Over the ten year period, an average of 28 million lb are exported to the USA; 15 million lb are shipped live and the remainder fresh frozen or canned. In the years 1976 and 1977 the USA imported 82% of total Canadian landings in various forms, providing 54% of the total supply to US consumers.[19]

Supply fluctuations and seasonal price projections

The impact of both sources of supply on ex-vessel price may be seen in Figure 1, showing the monthly supplies and ex-vessel price, averaged for the years 1974-78. Typically, first quarter supplies are low from both the USA and Canada, and US ex-vessel prices reach a yearly maximum. Lobsters are inactive because cold water temperatures and stormy weather limit fishing effort; both factors contribute to low supplies. Canadian imports contribute 71% of the total supply in January, February and March, consisting principally of pounded lobsters because in these months Canadian exports exceed Canadian landings. In April and May, ex-vessel price falls drastically when a few Canadian Districts have opened and Canadian fishing effort increases from zero to peak levels within a very short time interval. In 1978 for example, the Boston ex-vessel price reported

---

[18] *Ibid*, p 87.

[19] US Department of Commerce, National Marine Fisheries Service, *Shellfish Market Review and Outlook*, monthly issues for years 1974-78.

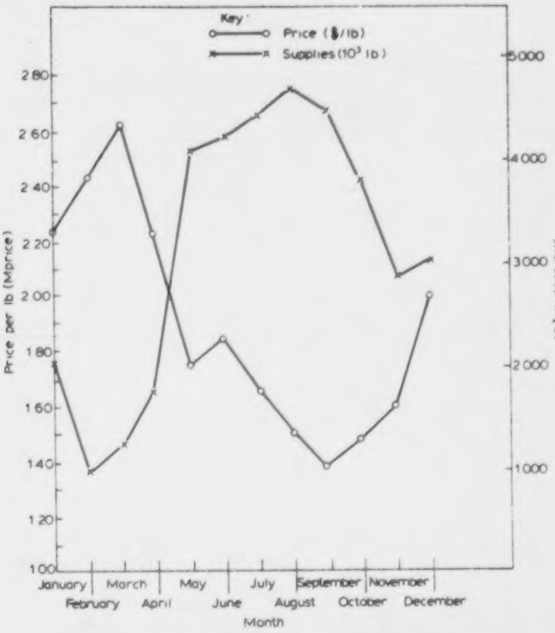


Figure 1. Average monthly supply of live lobsters and ex-vessel price, 1974-78.

Sources: Figures for US ex-vessel price and landings were obtained from the US Department of Commerce, *Shellfish Market Review and Outlook*, and figures for Canadian imports were compiled from the Bureau of Census report *FT 135: Imports by Commodity by Country*.
Note: Because the figure is compiled from monthly average figures the actual fluctuations have been smoothed by the averaging process. Prices are in $/lb and quantities by thousands of lb.

by the 'blue sheet' was $4.25/lb on Friday, 14 April[20] Eastern Nova Scotian lobsters were received in the Boston Market by Monday, 17 April when the price fell to $3.80 and by the following Friday, the price was $2.60/lb. The same pattern has been repeated each year for the past five years. At the Point Judith Fishermen's Cooperative in Rhode Island, the price fell from $3.40 on 12 April 1978 to $2.70 by 18 April.

Beginning in June, US landings normally exceed imports of Canadian lobsters. Most Canadian seasons close in July, and US imports of Canadian lobsters decrease significantly while US landings remain high. The ex-vessel price declines steadily, reaching a low in September. In late November, the district of southern Nova Scotia opens in time to take advantage of high prices. US imports exceed domestic supply, rising sharply in December and the cycle begins again.

Economic effects of reduced imports

The economic effects of imports include changes in net income of US lobster fishermen. To estimate these net income effects, prices and gross revenues were projected with and without imports. These projections were then used to calculate the effect of imports on net incomes of lobster fishermen. To predict US ex-vessel price, a price prediction equation was estimated. The estimated equation indicated a price flexibility of 0.31 when evaluated at the mean quantity observed. The estimated standard errors of all coefficients were less

---

[20] The blue sheet is a daily market news release for the Boston market published by the Market News service of the National Marine Fisheries Service.

Table 2. Projected mean prices and revenues with alternative import levels.

	Mean price[a] *$/lb*	Mean revenue[b] *10^3 $/month*
With 1974–78 observed imports	1.89	3 437
With zero imports	2.34	3 926
Differences	0.45	489
% differences	24%	14%

[a] Quantity weighted mean of monthly price projections

[b] Projected prices and quantities by month were multiplied and the products averaged over the 60 month period from 1974-78

Table 3. Projected monthly mean prices; status quo and zero Canadian imports.

Month	Projected ex-vessel prices, 1974–78	
	With observed imports (MPHAT)	*With zero imports (MNUPHAT)*
January	2.07	2.79
February	2.55	3.27
March	2.40	3.33
April	2.13	2.82
May	1.61	2.32
June	1.61	2.29
July	1.58	1.92
August	1.55	1.67
September	1.61	1.65
October	1.73	1.76
November	1.92	1.96
December	1.93	2.36

than one-quarter the absolute value of the associated coefficient estimate. The correlation between actual and predicted prices was 0.86.[21]

Table 2 contains the projected average annual prices and revenues with and without imports. These are quantity-weighted averages and indicate that, had imports been non-existent during 1974-78, the mean price would have been about $0.45/lb or 24% higher. The projected prices by month were weighted by monthly supplies. These products were averaged over the 60 month period to obtain projections of mean revenue with and without imports. The results indicate that, had imports been non-existent during 1974-78, the mean revenues per month would have been $489 000, or 14% higher.

A more detailed view of price and revenue effects is afforded by an examination of projected prices and revenues by month with and without imports. Table 3 contains the monthly mean price projections with and without imports. These were obtained by averaging prices for each month during the five year period. Note that the price differential attributable to imports is much larger in certain months than in others. For example, the differential in September is only $0.04/lb, but in May it is $0.71. Imports are at a seasonal low in the fall, so their elimination cannot greatly affect prices in the fall.

Table 4 is analogous to Table 3, except that monthly averages are for projected revenue instead of prices. Thus, revenue losses attributable to imports averages $442 000/month in January and $104 000/month in October. These represent losses of 37% and 1% of the *status quo* value for January and October, respectively. Losses are greatest, in percentage terms, during March-June. The average loss over the course of a season is $5 865 000/month, or 14%. This is consistent with the annual comparison of Table 3. What Table 4 indicates, in addition, is that the effect of imports on revenues differs dramatically between months.

---

[21] Further details on the estimation procedures and results are contained in Staff Paper No 35, available from the authors.

Table 4. Estimated revenue losses to US lobster fishermen, 1974–78, means by month.

Month	Mean monthly revenues		Loss	% loss[a]
	Status quo (10^3 $)	*Zero imports (10^3 $)*		
January	1 167.00	1 609.00	442.00	37
February	760.00	976.00	215.00	28
March	702.00	969.00	266.00	38
April	1 403.00	1 846.00	442.00	31
May	2 328.00	3 332.00	1 004.00	43
June	2 436.00	3 469.00	1 003.00	42
July	4 337.00	5 260.00	992.00	21
August	6 403.00	6 884.00	481.00	7
September	6 954.00	7 123.00	168.00	2
October	6 467.00	6 572.00	104.00	1
November	5 338.00	5 446.00	107.00	2
December	2 950.00	3 625.00	674.00	22
Annual means	**41 245.00**	**47 111.00**	**5 865.00**	**14**

[a] Annual loss as % of annual status quo annual mean revenue ($41 245 000).

The effects on net income of these price and revenue differences can be calculated for a representative lobster fisherman. It has been estimated that Massachusetts inshore lobster fishermen average 10 000 lb annual catch. This yielded a gross revenue of $15 943 and a return to labour and management of $4 962/year.[22]

As indicated in Table 4, if Canadian imports did not exist and average US landings did not change, gross revenues would have been 14% higher. Applying this percentage to the representative Massachusetts lobster fisherman implies that annual gross revenues per vessel would have been $18 175. If there were no change in the US lobster fleet, either in number of vessels or number of pots fished, expected landings per vessel and average cost would remain constant. The projected gross revenue increase would imply returns to labour and management of $7 194/year, or 45% higher than the *status quo*. It should be emphasized that these economic effects on an individual fisherman depend on the seasonal distribution of landings by that individual. Thus, if a fisherman landed all his catch in May and June, he would enjoy a 42-43% increase in gross revenues (Table 4). Conversely, if all his catch were landed in September-November, he would receive only a 1-2% increase in gross revenues. For a hypothetical average fisherman, the revenue increase would be 14%.

Thus far, attention has been focussed entirely on the economic effects of imports. This is consistent with the USITC criterion of economic damage. However, the policy option is a countervailing duty. In the following section we consider the probable economic effects of a countervailing duty.

Economic effects of countervailing duties

The economic effects of a countervailing duty could be measured if sufficient information were available. Because the information available is only partial, the best that can be done is to describe probable effects in ordinal terms. To do this, it is sufficient to accept certain ordinal propositions or assumptions as a basis for discussion. The assumptions selected below have substantial theoretical and empirical support, either from general microeconomic studies, or specific studies in fisheries and regional economics.[23]

The assumptions are primarily, if not exclusively, long-term or steady state ones, *viz*:

---

[22] J.M. Gates and J.M. D'Eugenio, 'Costs and returns of fishermen in the Massachusetts inshore lobster fishery', University of Rhode Island Marine Reprint No 60, 1975.

[23] Parzival Copes, 'The backward-bending supply curve of the fishing industry', *Scottish Journal of Political Economy*, Vol 17, No 1, 1970, pp 69-77; J.A. Crutchfield, 'Economic and social implications of the marine policy alternatives for controlling fishing effort', *Journal of the Fisheries Research Board of Canada*, Vol 36, 1979, pp 742-752; R.L. Dow, F.N. Bell, and D.M. Harriman, 'Bioeconomic relationships for the Maine lobster fishery with consideration of alternative management schemes', *NOAA Technical Report*, SSRF-683, NMFS, Seattle, Washington, 1975; J.M. Gates and J.M. D'Eugenio, 'Some economic effects of selected management measures: an analysis of the Massachusetts inshore lobster fishery', *Report to the State–Federal Program*, National Marine Fisheries Service, Gloucester, Massachusetts, 1974; B.J. Rothschild, J.M. Gates, and A.M. Carlson, 'Management of marine recreational fisheries', in Henry Clopper (ed), *Marine Recreational Fisheries 2*, Sport Fishing Institute, Washington, DC, 1977; and Joel S. Williams and Fred J. Prochaska, 'Maximum economic yield and resource allocation in the spiny lobster industry', *Southern Journal of Agricultural Economics*, July 1977.

(1) The supply of fishing effort has a price elasticity which is zero or positive.

(2) The aggregate marginal productivity of fishing effort is near zero and probably negative.

(3) Ex-vessel lobster supply has a price elasticity which is near zero and probably negative.

(4) In a fishery, changes in producer surplus can result from exogenous events such as tariff-related demand shifts. If the fishery is an open-access one, such changes in producer surplus benefits are dissipated through the effort and catch responses of assumptions (1) and (2). If an idealized limited entry programme exists, the benefit changes are permanent and their incidence depends on the limited entry scheme used.

(5) From the perspective of a region, as distinct from a national perspective, there may be a preference for regional employment and regional income measures of benefits, rather than net social surplus measures.

(6) Canadian lobsters will be allocated among world markets in such a way that international price differentials, net of tariff barriers, will not exceed transport costs.

Let us consider the effects of a countervailing duty under two cases or scenarios. In the first, assume that European markets do not exist.

A countervailing duty would cause a reduction in US imports of Canadian lobsters, an increase in Canadian consumption of lobsters, a reduction in Canadian lobster prices and a rise in US lobster prices. If price elasticities of demand are similar in the USA and in Canada, a given reduction in US imports of Canadian lobsters would reduce Canadian prices by a much larger percentage than the associated increase in US prices. This is because of the order of magnitude difference in sizes of the two markets. A relatively small reduction in US imports of Canadian lobsters would then restore the spatial price equilibrium conditions of assumption (6). Thus, in this first scenario, a countervailing duty would have trivial effects, both in the short and long term, on US fishermen or consumers. The countervailing duty would be absorbed primarily by the Canadian lobster fishery in the form of reduced prices and incomes.

Canadian lobster fishing effort might be reduced through exit and reallocation to other fisheries. However, because limited entry programmes exist for the Canadian lobster fishery, such a reduction is by no means certain. It depends on the magnitudes of the lobster price reductions and relative profit margins in the various fisheries of Atlantic Canada, to which lobster vessels are adaptable. In any event, a reduction in fishing effort, if it were to occur, would have little effect (probably positive) on Canadian landings and exports. A countervailing duty would be the instrument for an income transfer. Payments would be paid by the federal and provincial Canadian treasuries in the form of subsidies described earlier. These payments would indirectly be received by the US Treasury, which collects countervailing duties. Canadian lobster fishermen would in effect be intermediaries in this income transfer, but would derive little or no long-term benefit from it.

Next, we consider the more general and more realistic case in which European markets exist. Canadian lobster exports to Europe would be stimulated if a US countervailing duty were large enough to alter the existing trade equilibrium between Canada and Europe (assumption 6). From a US perspective, Canadian export supply to the USA would then be highly price-elastic for a sufficiently large countervailing duty. In this scenario, a US countervailing duty could, if sufficiently large, cause a reduction in the welfare of US lobster customers. The associated rise in US ex-vessel price would confer transitory gains on existent US lobster fishermen. These gains would be dissipated by a positive effort response with little or no increase, and possibly a slight decrease, in US catch.

The long-term national benefits of the countervailing duty would consist of zero benefits to producers and negative benefits to consumers. In terms of regional impact concepts of benefits, there would, however, be increased regional income and employment in the US lobster industry. In a recent input–output study of Southern New England, the estimated type II employment and income multipliers for the commercial fishing–lobster sector were 3.42 and 1.92, respectively. The type II income multiplier measures the direct, indirect and induced regional income effects per dollar of direct income change in the lobster sector. The employment multiplier measures the direct, indirect, and induced regional employment effects per unit change in employment in the lobster sector.[24]

The point of these ordinal comparisons is not that countervailing duties should or should not be imposed. The point is, rather, that a rational policy discussion requires an understanding of the economic system to which the fishery is subject. This includes international trade considerations as well as more traditional topics in fisheries management.

Such an understanding is not always revealed by participants in the policy-making process. It is notable that the second most favourable (in terms of national benefits) case for a countervailing duty represents a zero-sum game between nations. In this game, the US Treasury is the potential beneficiary of revenues. The most favourable case is a positive-sum game and is somewhat counterintuitive. This case corresponds to a negative supply-price elasticity for lobsters. In this case, a US countervailing tariff would increase Canadian landings and could (subject to considerations in assumption 6) increase exports to the USA.

As noted earlier, cost allocation in a multiple species fleet has no 'correct' solution, but cost allocation is less relevant than export supply-price elasticity and alternative markets. Similarly, the USITC criterion of economic damage is but a first step in the evolution of a rational countervailing duty. A rational duty would consider the levels at which realignment of trade flows would occur. Larger duties would involve trade-offs in the incidence of gains and losses among different groups, including producers, consumers, and the US Treasury.

Conclusions

Imports of Canadian lobsters have a significant effect on the received prices and incomes of New England lobstermen. Overall, with each 1% increase in total supplies, the price falls by 0.25-0.50%. However, imports vary seasonally, hence the effects of imports are strongest during March-June, which are crucial months for US lobstermen because their season has just begun and capital is needed, but the lobsters have not begun to move and catches are low. During such periods, when prices are still relatively high, Canadian lobsters are transported in and have a price-dampening effect on the market, resulting in $5.9 million in lost revenue to domestic fishermen. $5.9 million in lost revenue to domestic fishermen. $5.9 million in lost revenue amounts to $0.24/lb, given annual US landings of 25 million lb. Revenue lost because of Canadian imports amounts to 45% of net return to labour and management. Labour and management returns to US lobster fishermen are below their opportunity costs and lost revenue due to Canadian imports is a factor in this.

---

[24] Thomas A. Grigalunas, and Craig Ascari, 'Estimation of income and employment multipliers for marine related activity in the Southern New England marine region', RI Agr Exp Station Contribution No 1933, 1980.

Because Canadian lobstermen are subsidized between $0.13 and $0.29/lb, they are able to harvest and process their catch with lower fixed costs than US lobstermen while competing in the same market. This gives Canadian lobstermen lower costs through subsidies. In addition, Canadian lobstermen have the ability, through differences in season, to sell in the US market when prices here are high, while the bulk of US landings occurs in periods of lower prices. A countervailing duty of from $0.13 to $0.29/lb placed on lobsters imported from Canada would be roughly equivalent to the value of subsidies involved. This duty would reduce the returns to Canadian lobstermen and put the Canadian and US lobstermen on an equal competitive basis.

Injury as it applies to subsidized imports has been defined by Congress. In applying injury determinations for duty free items under the Tariff Act of 1930, as amended by the Trade Act of 1974, the House Ways and Means Committee interprets injury to have the same meaning as in section 201(a) of the Antidumping Act, 1921, as amended. The Committee considered qualifying injury to coincide with the International Antidumping Code requiring 'material' injury to the domestic industry. Congress decided against this move: '… to avoid the possibility that the addition of the word "materially" might be interpreted to require proof of a greater degree of injury than is required under existing law for imposition of antidumping duties. The committee decision is not intended to require imposition of antidumping duties upon a showing of frivolous, inconsequential, or immaterial injury'.[25]

According to this study, depressed prices caused by Canadian imports resulted in about $6 million/year in lost revenue to US lobstermen during 1974-78. Canadian lobsters account for 54% of the total supply of live lobsters. Such substantial market invasion and depressed prices would appear to constitute material injury as determined by previous injury findings of the International Trade Commission.[26] In particular, it is estimated that net returns to existing lobster fishermen would have averaged 45% higher during 1974-78 in the absence of these imports.

The economic effects of a countervailing duty were explored. These effects depend greatly upon alternative market potentials faced by Canadian exporters. They can be counterintuitive due to the pecularities of long-term supply response for a fugitive natural resource under open-access conditions.

[25] J.J. Barcelo, 'Anti-dumping laws as barriers to trade – the United States and the International Antidumping Code', in John H. Jackson, *International Economic Relations*, West Publishing Company, St Paul, Minnesota, 1977, pp 749-753. Under the Trade Agreement Act of 1979 the adjective 'material' has been added. A material injury to an industry is defined as harm which is 'not inconsequential, immaterial, or unimportant'.

[26] *Ibid*, p 753.

Joel B. Dirlam is Professor of economics and resource economics at the University of Rhode Island, USA. He holds the degrees of AB and PhD, and was formerly Professor of economics at Michigan State University. His main publications include 'Fair Competition, The Law and Economics of Antitrust Policy' (with A.E. Kahn), Cornell University Press, Ithaca, NY, 1954; 'Pricing in Big Business: A Case Approach' (with A.D.H. Kaplan and R.F. Lanzillotti), Brookings Institution, Washington, DC, 1958; and 'An Introduction to the Yugoslav Economy' (with J. Plummer), Merrill, New York, 1973.

John M. Gates holds the degrees of BS (McGill University), MS (University of Connecticut), and PhD (University of California, Berkeley), and is currently Associate Professor in the Department of Resource Economics, University of Rhode Island. He was formerly with the Office of Policy Development and Long Range Planning, National Marine Fisheries Service, USA. His publications include 'Management of marine recreational fisheries' in Henry Clepper, ed, 'Marine Recreational Fisheries 2', Sport Fishing Institute, Washington, DC, 1977; 'Demand price, fish size and the price of fish', Canadian Journal of Agricultural Economics, Vol 22, No 3, November 1974, pp 1-12; and 'Impact of guaranteed income plans on income distribution – Discussion', Proceedings of the New England Agricultural Economics Council, June 1969, pp 82-89.

Nancy L. Hasselback holds the degree of AB (Duke University) and Master of Marine Affairs (University of Rhode Island), and is self-employed in salmon gill-netting. She testified before the International Trade Commission in countervailing duty proceedings.

GOVERNMENT ASSISTANCE TO THE COMMERCIAL FISHING INDUSTRY OF CANADA

Prepared by

Eugene H. Buck
Lawrence C. Kumins
Larry B. Parker
Analysts in Environmental Policy
Environment and Natural Resources Policy Division

August 15, 1980

TABLE OF CONTENTS

	Page
Introduction	1
Government assistance to the commercial fishing industry - Canada	4
East Coast	4
West Coast	10
The effects of inexpensive Canadian diesel fuel on the competitive position of the U.S. fishing industry	11
Fuel costs	11
Fuel consumption	14
Ex-vessel fisheries values and profit margins	21
Discussion of impacts on U.S. fishing industry	26
Conclusions	29
Appendices	
Domestic and International Financial Assistance Programs for the Fishing Industry	A
Canadian Subsidies to the Fishing Industry	B
Federal Register, May 22, 1980 (45 FR 34456+)	C
Economic Impact of Price Increase and Supply Shortage of Fuel on the U.S. Fishing Industry	D

INTRODUCTION

This document focuses on public government activities in Canada which could provide economic advantages for that nation's commercial fishing industry. Such assistance to the fishing industry could constitute a subsidy, depending on the legal and political interpretations of this term.

Canada is the nation exporting the largest quantity of edible fisheries products to the United States. During 1979, this nation accounted for 22.7 percent of all U.S. imports of edible fisheries products by weight and 22.2 percent by value.

Several general types of government assistance are possible. Direct assistance given by a nation to its citizens engaged in commercial fishing can be provided in several forms including direct financial grants for any activity associated with the commercial fishing industry. These grants can range from port or harbor construction to price stabilization support. Also often available are government loans provided at interest rates significantly lower than can be obtained on the commercial market.

Indirect national assistance can take the form of tariff and non-tariff barriers to fisheries imports, government-funded research in fisheries, product promotion of fisheries items, and restrictive provisions for regulating foreign fishing in domestic waters. Fees and regulations which increase the costs of foreign production can enhance the competitiveness of a nation's domestic fishing industry. Other laws which exclude, wholly or partially, foreign participation at various levels of a nation's fishing industry can also benefit the home country's citizens. A national policy controlling diesel fuel prices below the world market price would also benefit that nation's fishing industry.

Direct international assistance occurs when a multinational development aid organization provides financial or technical support for commercial fisheries development of a nation.

Indirect international assistance can result when a coastal nation neglects to regulate foreign nations fishing within waters under that coastal state's declared jurisdiction such that legitimate user fees are not collected or harvests in excess of allocated or negotiated quotas are not penalized.

For some aspects of assistance, current information is unavailable. This situation derives from a combination of factors including the considerable time required to obtain materials descriptive of current conditions, the rapidity of change as Canada adjusts to the 200-mile extension of fishery jurisdiction, and an understandable hesitancy to discuss practices which could lead to the imposition of countervailing duties on fisheries products exported.

Assessment of the impacts such assistance to the Canadian fishing industry may have on the competitiveness of the U.S. fishing industry could be attempted where monetary values are available for government assistance programs, and where detrimental effects upon the U.S. market and fishing industry are apparent. However, information allowing these calculations is seldom available. Also complicating the analysis of impacts is a consideration of how best to assess subsidized facilities or vessels whose benefit to the foreign industry can continue over many years. Such benefits are normally calculated over the effective lifetime of the facility or vessel.

Within these limitations, this report attempts to better define the issue of government assistance to the Canadian fishing industry and its effect on the U.S. fishing industry, and to identify areas for further inquiry.

Major emphasis of this analysis is focused on potential diesel fuel price advantages relative to the U.S. commercial fishing industry. Appendices attached to this report provide the more current or significant documents on this topic available from other sources.

GOVERNMENT ASSISTANCE TO THE COMMERCIAL FISHING INDUSTRY - CANADA

A recent report compiled by the National Marine Fisheries Service summarizes government assistance to fisheries in several nations. Rather than duplicate their efforts, the following comments are designed to supplement the material provided in this NMFS report. This NMFS report is attached as Appendix A with the section discussing Canada beginning on page 9. A second NMFS report prepared in 1978 provides further detail and is included as Appendix B.

Calculations provided by the Department of Commerce were reported by the International Trade Commission in a Federal Register notice of May 22, 1980 (45 FR 34456+). The figures indicated that Canadian subsidies exist in the amount of 1.08 percent of f.o.b. import price of fish harvested in the Atlantic Region of Canada and in the amount of 0.38 percent of the f.o.b. import price of fish harvested in other regions of Canada (West Coast). A copy of this notice is attached as appendix C for further reference. As is indicated in following sections of this document, price differences arising from lower Canadian diesel fuel prices appear much more significant than the suggested impacts of public assistance to fisheries in any other current form as discussed in this section.

East Coast

In November, 1978, Provincial Fisheries Minister Walter Carter announced plans to direct more than C$250 million in Federal and Provincial public funds toward the development of Newfoundland and Labrador fisheries prior to 1985.[1] The relationship of this announcement to the C$900 million combined fleet development program[2] for Newfoundland and Nova Scotia originally proposed in 1977 is not clear. This latter program emphasized offshore and inshore fleet renovation and expansion. Since a significant proportion of the C$900 million program was to be sought from private sources, the announced C$250 million might be the public share. Included in the C$250 million proposal were an expansion of current vessel construction subsidies; tax exemptions on fuel, fishing gear, and equipment; low interest loans for the purchase of vessels and equipment; fishing gear subsidies based on productivity; low down payment requirements for loans to acquire vessels and equipment; subsidies on longliners and small boats; and grants to compensate for lost gear. Central to this plan are the activities of the government company, Newfoundland Fish Procurement and Distribution Corp. This group's main function will be the establishment and operation of a C$61 million Primary Landing and Distribution Center to buy the harvest from commercial vessels for processing or for transfer to smaller processing plants.

A Lobster Buy-Back Program in New Brunswick and Nova Scotia had bought 558 licenses by January, 1979.[3] This action should have decreased

---

1/ Sullivan, Tim. If Canadian subsidies have ended, what's that $250 million scheme? National Fisherman. June, 1979: 36-37.

2/ Macdonald, R.D.S. Inshore fishing interests on the Atlantic coast: Their response to extended jurisdiction by Canada. Marine Policy. July, 1979: 171-189.

3/ The year in review. Fisheries and Oceans News. Jan., 1980. p. 6.

the competition in this industry and increased the economic return to the remaining harvesters.

In the Bay of Fundy, a "one-shot" federal grant of C$250,000 was announced on April 30, 1979, establishing a catch insurance program for the herring weir fishery. Guaranteeing a yearly minimum income,[4/] this fund would be supplemented by a three percent annual levy on commercial herring landings. Federal government support for this program was anticipated for only three years. Undescribed programs referred to in this same announcement credited "federal initiatives" with quadrupling the value of a purse-seine fishery for large herring in the Bay of Fundy in the previous four years.

In the 1979-80 budget for Fisheries and Oceans, Atlantic fisheries development was funded for C$16.9 million. Included in this program were an expansion of the Newfoundland inshore fish handling program, increased fish chilling assistance, technology transfer to increase fishing efficiency, international marketing studies, and data collection.

The 1980-81 budget for Fisheries and Oceans contained C$6,410,000 for major capital projects involving small craft harbor construction and expansion on the Atlantic Coast. Also included was C$8.6 million for maintenance of small craft harbors on both coasts. For 1979-80, the small craft harbors program was funded for approximately C$26 million to improve harbor management practices and upgrade facilities to handle larger fishing vessels. Additional items included C$1 million for lobster

---

[4/] Fishermen's catch insurance for Bay of Fundy. News Release. Fisheries and Oceans, Government of Canada. Apr. 30, 1979. 3 p.

harvesters (undetermined circumstances) and C$320,000 in assistance to Gulf and Scotian Shelf fishermen to modify fishing gear.

The 1980-81 budget excludes any compensation to commercial Atlantic salmon harvesters for the loss of income resulting from closure of the fishery. During 1979-80, a total of C$1,572,000 was expended for this purpose. Also excluded is assistance for construction and equipment for commercial ice-making and ice-storing facilities and for commercial fish chilling facilities to improve fish quality. During 1979-80, funds totalling C$2.2 million were given to these efforts.

West Coast

In British Columbia, government aid is provided to Indians and small fishing communities to compensate for local economic inequalities and regional disparities. The proportion of this funding which benefits the commercial fishing industry is difficult to determine. The area's most important program is the Salmon Enhancement Program (SEP). The first five-year phase began in 1977 with a total budget of C$150 million. Of this total, C$143 million were to be in Federal funds and C$7 million in Provincial funds. The original 5-year phase has been stretched to 7 years for budgetary reasons. The 1979-80 budget for Fisheries and Oceans included C$22 million for the SEP. The 1980-81 budget included slightly more than C$10.6 million for major capital projects such as hatchery construction associated with the SEP. Programs for the recovery of public costs of this program from private benefactors have been discussed, but none have been instituted. U.S. salmon harvesters may also benefit from Canadian investments in the SEP since salmon migrate extensively along the Pacific coast.

The 1980-81 budget for Fisheries and Oceans also contained several items of assistance to Pacific Coast halibut harvesters. C$200,000 was identified for compensation to harvesters for loss of income resulting from closure of the fishery and an additional C$600,000 for conversion of fishing vessels and gear resulting from the phase-out of Canadian halibut fishing from U.S. waters off Alaska.

In late 1978, government announcements proposed discontinuing the Fishing Vessel Insurance Programme and funding of the University of British Columbia's technical fisheries laboratory. In January, 1979, discussions were held to consider replacing the Fishing Vessel Insurance Plan with one or more harvester-run mutual insurance companies.[5] It could not be documented whether or not these actions subsequently took place.

Although emphasis has shifted from the construction of new vessels to the replacement of existing vessels by more efficient craft, increasing use of the Fishing Vessel Assistance Programme by British Columbia harvesters has occurred.[6] From a total of only 6 subsidized vessels in 1975-76, use of this program increased to 44 vessels for 1977-78 and a preliminary count of 171 vessels for 1978-79 in British Columbia. During 1978-79, nearly C$11 million was paid in subsidies to harvesters on both

---

5/ The year in review. Fisheries and Oceans News. Jan., 1980. p. 6

6/ Fisheries Review '79. Canadian Shipping and Marine Engineering. Apr., 1979. p. 10-13.

coasts for the construction of more than 650 commercial fishing vessels.[7/] An additional item in the 1980-81 budget estimates for Fisheries and Oceans identified C$2 million for assistance in the construction of fishing vessels where capital subsidies are not payable pursuant to other federal authorizations.

Other sources suggest that by charging low domestic license fees which cover only a part of the costs of fisheries management and research, the Canadian government is subsidizing the commercial fishing industry.[8/] For 1978, the Canadian government expended approximately C$56 million on fisheries along the British Columbia coast while collecting only C$2 million in license fees.

During 1978, more than 900 loans totalling C$16,338,181 were made under the Fisheries Improvement Loans Act.[9/] These loans can provide for building or buying a vessel or equipment, major repair or overhaul of vessels, purchasing or construction of shore installations, or development or improvement of a harvesting enterprise. This is essentially a loan guarantee program for the commercial fishing industry. Of the 1978 accounts, 373 loans for a total of C$13,130,713 were provided for British Columbia operations. Almost all the remainder were granted for operations in Atlantic coast provinces.

[7/] Annual Report 1978/1979. Fisheries and Environment Canada. 1979. 79 p.

[8/] Rimes, Les. Salmon fishermen pay too little. Fishing News International. Dec., 1978.

[9/] Fisheries improvements loans up by 65 per cent. News Release. Fisheries and Oceans, Government of Canada. Feb. 14, 1979. 2 p.

The 1979-80 budget for Fisheries and Oceans included a number of government assistance items. Economic development of Canada's offshore fisheries (EDCOF) was funded at approximately C$21 million to research stock abundance on both East and West Coasts, operate patrol vessels, and expand a foreign observer program.

Certain industry observers indicate that there may also be positive benefits to the U.S. fishing industry arising from the aggressive marketing of Canadian exports in the U.S.[10/] In some cases, imported Canadian fish may have helped overcome erratic production in U.S. fisheries and stabilized supplies. This stability could encourage the development of reliable U.S. markets for larger quantities of fisheries products which, in turn, should provide increasing opportunities for marketing U.S. catch. In other words, Canadian fish may have accomplished some of the market development activities necessary to support a sizeable domestic U.S. fishery. Some consumer advocates contend that competition from foreign imports may result in a lower retail fish prices in the supermarket.

[10/] Sullivan, Tim. .....But maybe those supports aren't all bad. National Fisherman. June, 1979. p. 37.

THE EFFECTS OF INEXPENSIVE CANADIAN DIESEL FUEL ON THE COMPETITIVE POSITION OF THE U.S. FISHING INDUSTRY

Fuel Costs

According to information obtained during April and May, 1980 by the National Marine Fisheries Service (NMFS),[11] a reasonable average for the current pump price in Canada of diesel fuel for commercial fishing vessels is equivalent to US$0.46 per U.S. gallon.

An independent check made in late June 1980, by telephoning four marine terminals in British Columbia yielded indicated pump prices of C$1.000 to C$1.046 per Imperial gallon. Discounts based on volume are common and the telephone survey shows most fishing vessels would be eligible for a C$0.07 per Imperial gallon reduction in pump price. Additionally, Canadian fishing vessels are granted a blanket exemption from both British Columbia's provincial tax of C$0.05 per Imperial gallon and the Federal tax of C$0.071 per Imperial gallon. Assuming an average pump price of C$1.02 per Imperial gallon, a total tax rebate of C$0.121 per Imperial gallon, and a C$0.07 per Imperial gallon volume discount; Canadian harvesters pay an estimated average price of C$0.83 per Imperial gallon. This is equivalent to US$0.58 per U.S. gallon, or about 58 percent of what U.S. fishing vessels pay for diesel.

This tends to validate the NMFS figure of US$0.46 per U.S. gallon obtained several months ago as about the lowest price available to Canadian fishing vessels. This price (US$0.46 per U.S. gallon) will be used in

---

11/ Edward Laughlin, NMFS. Phone: 634-7261. Personal conversation.

further calculations in this report with the understanding that this represents the extreme advantage which might have been gained from less expensive diesel fuel.

The tax rebates stem from a July, 1971 Department of National Revenue ruling which enumerated twelve categories of vessels which are exempt from fuel taxes. These are vessels engaged in international commerce (including foreign yachts) and fishing vessels. While the original ruling applied to fishing vessels in excess of 45 feet, this size limit has subsequently been dropped. Additionally, the Canadian Department of Fisheries and Oceans prohibited the sale of fuel to non-Canadian fishing vessels.

Canadian fishing vessels receive what one fuel dealer described as an almost blanket tax exemption, while dealers must file a Form K36A to procure exemptions for other types of vessels.

It is important to realize that Canada has effective price controls on crude oil which appear to flow through to refined product prices quite effectively. Moreover, imported crude is subsidized such that the perceived price is the same as domestic crude. This accounts for the relatively low price of diesel fuel for the Canadian fishing industry. While the price has been C$14.75 per barrel (bbl) for the first half of 1980, a rise of approximately C$2 per bbl is anticipated within the month. This translates into a probable pump price increase of no less than C$0.05 per U.S. gallon. Even then, crude prices in Canada will be less than half the world price.

U.S. diesel is not price-controlled (it was released from the price-controlled program in June, 1976) and sells at an unregulated price. While U.S. refiners pay about US$6 per bbl less than the world price for their crude, the implicit subsidy is far less than that flowing from the Canadian price control program. It is also noteworthy that U.S. price controls are being phased out and will end on October 1, 1981 unless ended earlier by the President or extended via new legislation.

In comparison, diesel fuel prices during spring 1980 at various U.S. commercial fishing ports ranged from 79 to 92.4 cents per gallon on the Oregon coast,[12] from 79.9 to 94 cents per gallon in the Seattle area,[13] and from 85 cents to $1.14 per gallon in New England.[14]

Other factors which might influence the final cost of diesel fuel to consumers include tax rebates from federal/dominion or state/provincial governments and special loans available from these same government sources for financing diesel fuel purchases. Although reference was noted to fuel tax rebates available in Newfoundland,[15] no further substantiation of any Canadian tax relief program could be obtained from U.S. or Canadian sources until marine terminals in British Columbia were contacted directly. As mentioned on previous pages, certain conditions in Canada can result in one's exclusion from payment of as much as C$0.121 tax per Imperial gallon of diesel fuel. No loan or tax rebate programs were identified which might reduce the total cost of diesel fuel to the U.S. commercial fishing industry.

---

[12] Browning, Robert. Outlook is uncertain for N. Pacific fuel supply. National Fisherman. June, 1980. p. 12.

[13] Ibid.

[14] Fuel: high prices, no help. Maine Commercial Fisheries. April, 1980. p. 1.

[15] Ibid. and in Appendix A, Table 4, following p. 11.

For the purposes of this analysis, the spring 1980 difference between the Canadian and U.S. price of diesel fuel for sale to the commercial fishing industry was taken to be US$1.00 per U.S. gallon (U.S. price) minus US$0.46 per U.S. gallon (equivalent Canadian price) yielding US$0.54 cents per U.S. gallon.

Fuel Consumption

Fuel consumption data for the U.S. fishing industry were difficult to obtain. Two primary sources provided most of the data utilized in this preliminary analysis.

Marine Economics Data Sheets prepared by the Oregon State University Extension Service and analyzing a broad variety of Pacific Northwest fisheries were obtained. Two reservations are appropriate in the use of these data. First, the information is based on the 1977 fishing season. With lower fuel costs (an estimated pump price of US$0.35[16] per gallon of diesel fuel in the Pacific Northwest was used to calculate fuel consumption from fuel costs listed), incentives for fuel efficiency were less than at current higher fuel prices. Thus, harvesting efficiencies calculated from 1977 data may be lower than the industry currently experiences, and the apparent severe impacts of higher fuel prices may have been

---

16/ A disheartening day in Washington. The Fish Boat. May, 1980. pp. 33, 81-84.

partially mitigated by improved efficiencies. Second, individual vessels used in these studies were "usually more successful than the average."[17/] Profits calculated for these vessels are probably above average. Thus, the proportional impacts of fuel costs (compared as fuel cost per pound of fisheries product landed) might be less for these selected vessels than for the majority of the commercial fishing fleet. These two qualifications are opposite in their effects on fuel price impact evaluation and may somewhat offset each other's influence.

A second source used was a U.S. Department of Energy contract study (Contrract No. EC-77-S-02-4456) completed in June, 1978 by Jean Mayer and Mary Rawitscher, entitled "Energy Use in U.S. Seafoods." This study did not express fuel costs separately, but compiled total harvester energy consumption including energy used to build the harvesting vessel, depreciated over its lifetime; repairs to the vessel and equipment; ice; bait; and nets, when used. Thus, the data from this report overestimate fuel consumption and concurrent costs. However, one could argue that total energy costs borne by the harvester are the better measure of the total impact of increased fuel prices.

Data from these two major sources along with that provided by several minor sources are compiled in Table 1. Individual fisheries are listed in descending order according to the severity of impact measured as the relationship of U.S. fuel costs or the Canadian advantage in fuel savings to the ex-vessel (landed) vaule of the fisheries product.

[17/] Smith, Frederick J. Understanding and using Marine Economics Data Sheets. Marine Advisory Program, Oregon State University, Corvallis. Sea Grant Cooperative Special Report 500. Nov. 1978. 4 p.

TABLE 1

Energy Costs for Harvesting U.S. Fisheries Resources

Fishery	Harvesting Efficiency (lbs caught/gal fuel consumed)[18]	1980 Fuel Costs/lb (cents)[19]	1979 Ex-vessel Price/lb (cents)[20]	Fuel Costs as % of Ex-vessel Price	Canadian Advantage (cents per Lb)[21]	% of Ex-vessel Price per Lb[22]
Gulf trawler-mixed stocks[a]	9.02	11.09	(16.8)[23]	66.0	---	---
Tuna[b]	4.74	21.08	44.5[24]	47.4	---	---
Haddock[b]	9.46	10.57	34.5	30.6	5.7	16.5
Shrimp[b]	1.02	97.94	325.2	30.1	---	---
Sea scallops - New England[c]	1.00	100.00	340.3	29.4	54.0	15.9
Astoria salmon gillnet-B[d]	2.53	39.53	(141.0)[25]	28.0	21.3	15.1
Shrimp - Gulf-B[e]	1.12	89.29	325.2	27.5	---	---
SE Alaska salmon seining[d]	6.35	15.75	(60.5)[25]	26.0	8.5	14.0
American lobster[b]	2.27	44.13	180.3	24.5	23.8	13.2
Monterey salmon and rock cod[d]	6.11	16.37	(69.7)[23]	23.5	---	---
Seattle drag fishing-C[d]	22.40	4.46	(20.0)[25]	22.3	2.4	12.0
Cod[b]	17.84	5.61	26.6	21.1	3.0	11.3
Sea scallops[b]	1.56	63.90	340.3	18.8	34.5	10.1
Seattle drag fishing-A[d]	26.87	3.72	(20.0)[25]	18.6	2.0	10.0
Otter trawlers - Washington[i]	36.55	2.74	(15.0)[26]	18.3	1.5	10.0
American lobster[j]	3.10	32.26	180.3	17.9	17.4	9.7
Brookings salmon, crab, and tuna[d]	6.75	14.81	(83.5)[23]	17.7	8.0	9.6
Seattle drag fishing-B[d]	28.45	3.51	(20.0)[25]	17.6	1.9	9.5

TABLE 1 (continued)

Fishery	Harvesting Efficiency[18] (lbs caught/gal fuel consumed)	1980[19] Fuel Costs/lb (cents)	1979[20] Ex-vessel Price/lb (cents)	Fuel Costs as % of Ex-vessel Price	Canadian Advantage[21] (cents per Lb)	% of[22] Ex-vessel Price per Lb
Shrimp - Gulf-A[e]	1.85	54.05	325.2	16.6	---	---
Seattle drag fishing-D[d]	30.92	3.23	(20.0)[25]	16.2	1.7	8.5
Blue crab[b]	33.35	3.00	19.1	15.7	---	---
Monterey salmon & tuna[d]	8.16	12.25	(79.5)[23]	15.4	---	---
Shrimp[f]	2.06	48.54	325.2	14.9	---	---
Charleston salmon and tuna-B[d]	6.09	16.42	(111.5)[23]	14.7	8.8	7.9
Westport salmon, crab, and tuna[d]	28.37	3.52	(25.5)[23]	13.8	1.9	7.5
Sea scallops[j]	2.14	46.73	340.3	13.7	25.2	7.4
Pink salmon[b]	16.75	5.97	44.6	13.4	3.3	7.4
Astoria salmon gillnet-A[d]	4.91	20.37	(156.0)[25]	13.1	11.0	7.1
Flounder[b]	14.55	6.87	52.7[27]	13.0	3.7	7.0
Astoria salmon gillnet-C[d]	5.64	17.73	(141.0)[25]	12.6	9.5	6.7
Bellingham salmon seining[d]	14.96	6.68	(56.1)[25]	11.9	3.6	6.4
King salmon[b]	3.86	25.93	220.8[28]	11.7	14.0	6.3
Menhaden[j]	207.90	0.48	4.2	11.4	0.26	6.2
Charleston drag fishing[d]	46.82	2.14	(19.0)[25]	11.2	1.2	6.1
Astoria shrimp fishing[d]	40.00	2.50	(23.0)[25]	10.9	1.4	5.9
Fort Bragg salmon and tuna[d]	8.85	11.30	(105.0)[23]	10.8	6.1	5.8
Bellingham salmon gillnet[d]	8.66	11.55	(123.0)[25]	9.4	6.2	5.1

TABLE 1 (continued)

Fishery	Harvesting Efficiency (lbs caught/gal fuel consumed)[18]	1980 Fuel Costs/lb (cents)[19]	1979[20] Ex-vessel Price/lb (cents)	Fuel Costs as % of Ex-vessel Price	Canadian Advantage (cents per Lb)[21]	% of Ex-vessel Price per Lb[22]
Eureka salmon, crab, and tuna-A[d]	17.27	5.79	(64.1)[23]	9.0	3.1	4.9
Bodega Bay salmon, crab, and tuna[d]	13.14	7.61	(86.0)[23]	8.8	4.1	4.8
Port Orford crab and salmon[d]	14.21	7.04	(79.6)[23]	8.8	3.8	4.8
Eureka drag fishing[d]	57.38	1.74	(20.0)[25]	8.7	0.9	4.7
Perch (redfish ?)[b]	57.42	1.74	21.0	8.3	0.9	4.5
Otter trawlers[g]	6.75	14.81	180.3	8.2	8.0	4.4
Pacific halibut[b]	6.64	15.06	191.0	7.9	8.1	4.3
Charleston salmon and tuna-A[d]	8.01	12.48	(159.1)[23]	7.8	6.7	4.2
Charleston salmon fishing[d]	7.15	13.99	(182.0)[25]	7.7	7.6	4.2
Coos Bay shrimp & crab[d]	47.45	2.11	(28.3)[23]	7.5	1.1	4.0
Charleston shrimp & crab[d]	50.00	2.00	(28.3)[23]	7.1	1.1	3.8
Gig Harbor salmon gillnet[d]	11.96	8.36	(126.0)[25]	6.6	4.5	3.6
King crab[i]	10.28	9.73	150.1	6.5	5.2	3.5
Eureka salmon, crab, and tuna-B[d]	28.00	3.57	(59.5)[23]	6.0	1.9	3.2
Seattle salmon gillnet[d]	14.00	7.14	(123.0)[25]	5.8	3.8	3.1
Pacific halibut[i]	10.62	9.42	191.0	4.9	5.1	2.7
King crab[h]	15.40	6.50	150.1	4.3	3.5	2.3

TABLE 1 (continued)

Data sources:

a/ Juhl, Rolf. Economics of Gulf of Mexico industrial and foodfish trawlers. Marine Fisheries Review. Nov., 1974. 36(11):39-42. (Based on catch and expenses of three "top ranking" vessels)

b/ Mayer, Jean, and Mary Rawitscher. Energy use in U.S. seafoods. Prepared for U.S. Department of Energy, Division of Industrial Energy Conservation under contract no. EC-77-S-02-4456. June, 1978. Tufts University, Medford, Mass. 89 p. (Gallons of fuel consumed were calculated using 34,650 kilocalories per gallon of diesel fuel)

c/ A disheartening day in Washington. The Fish Boat. May, 1980. p. 81. (Gallons of fuel consumed were calculated using a diesel fuel price of US$0.80 per gallon)

d/ Smith, Frederick J. Marine economics data sheets. Oregon State Univ. Extension Service, Corvallis. (1978?) 29 p. (Gallons of fuel consumed were calculated using a diesel fuel price of US$0.35 per gallon. Each set of figures represents data from only a single vessel.)

e/ Griffin, Wade L., et al. Estimated costs, returns, and financial analysis: Gulf of Mexico shrimp vessels. Marine Fisheries Review. Dec., 1974. 36(12): 1-4. (Fuel estimated at US$0.14 per gallon - 1971)

f/ Fuel: high prices, no help. Maine Commercial Fisheries. April, 1980. p. 1. (Calculated using 1979 total U.S. shrimp landings)

g/ Shaffer, Richard A. You think lobsters are too expensive? Lobstermen do not. Wall Street Journal. Nov. 14, 1979. p. 1.

h/ Outlook is uncertain for N. Pacific fuel supply. National Fisherman. June, 1980. p. 12.

i/ Wiviott, Douglas J., and Stephen B. Mathews. Energy efficiency comparison between the Washington and Japanese otter trawl fisheries of the Northeast Pacific. Marine Fisheries Review. Apr., 1975. 37(4):21-24.

j/ Penn, Edwin S. Economic impact of price increase and supply shortage of fuel on the U.S. fishing industry. Economic Research Div., NMFS. June, 1974. 58 p.

TABLE 1 (continued)

18/ Calculated as the average number of pounds of fisheries product landed per gallon of fuel consumed.

19/ Based upon a diesel fuel price of US$1.00 per gallon

20/ Unless otherwise noted, ex-vessel prices were provided by Winnie Crews, NMFS. Phone: 634-7366

21/ Calculated on the basis of Canadian diesel fuel at US$0.46 per U.S. gallon and assuming no differences in fishing/fuel efficiencies.

22/ Canadian advantage divided by 1979 ex-vessel price (both per pound) times 100 to convert to a percentage.

23/ Mixed species - weighted average of 1977 ex-vessel prices calculated.

24/ Yellowfin tuna

25/ The 1977 ex-vessel price per pound given in Marine Economics Data Sheets was used.

26/ Mixed species - estimated ex-vessel value.

27/ Yellowtail flounder

28/ Troll harvested

Ex-vessel Fisheries Values and Profit Margins

Average ex-vessel (landed) values of fisheries products to the harvester for 1979 were obtained from the NMFS[29/] for comparison with fuel costs. The portion of the ex-vessel value necessary to pay for fuel costs has been calculated and is shown in Table 1 as a percentage.

The profitability of different harvesting operations within the fishing industry is not well documented. Information provided by a NMFS report (Table 2) was used to calculate estimates of profitability. Individual fisheries are arranged in order of decreasing severity of impact expressed as a percentage comparison of fuel costs to profits.

Because ranges of profitability for the harvesting of fisheries products are relatively undocumented, the points at which the harvesting of different species or the utilization of different fishing methods becomes uneconomic are also unknown. Thus, the data presented here are best used for relative comparisons between the various fisheries.

The use of 1980 fuel prices with 1979 ex-vessel prices introduces some error. However, because some ex-vessel prices are decreasing this season, the margin of error is smaller than originally anticipated.

29/ Winnie Crews, NMFS. Phone: 634-7366. Personal conversation.

TABLE 2

FUEL COSTS AS A PERCENT OF PROFITS[30/]

Fishery	Gear	Vessel Size (GRT)	No. of Vessels	Fuel Costs as % of Profits
Groundfish-New England	otter trawl	32	4	250.0
Shrimp - Gulf of Mex.	otter trawl	108	55	182.1
Yellowfin tuna - Calif	purse seine	721	5	156.5
Groundfish-New England	otter trawl	52	7	140.4
Yellowfin tuna - Calif	purse seine	319	7	102.7
Groundfish-New England	otter trawl	176	12	94.5
Shrimp - Gulf of Mex.	otter trawl	60	6	91.0
Yellowfin tuna - Calif	purse seine	1,039	7	71.9
Halibut - Calif./Wash.	longline	51	7	41.5
Groundfish-New England (industrial fish)	otter trawl	87	6	34.4
Groundfish-California	otter trawl	79	6	27.0
Albacore tuna - CA/OR	trolling	34	5	26.5
Yellowfin tuna - Calif	pole/line	102	5	25.9
Groundfish-California	otter trawl	42	6	22.9
Salmon, tuna, & crab - California	mixed	44	12	22.4
Groundfish-Ore./Wash.	otter trawl	55	6	21.7
Salmon - Ore./Wash./Ak.	trolling	14	12	20.5
Salmon, tuna, crab, shrimp, & groundfish - Oregon & Washington	mixed	100	6	17.2
Salmon, tuna, crab, shrimp, & groundfish - Oregon & Washington	mixed	24	3	15.2

TABLE 2 (continued)

Fishery	Gear	Vessel Size (GRT)	No. of Vessels	Fuel Costs as % of Profits
King & tanner crab-AK	pots	198	5	14.5
Salmon, tuna, & crab - California	mixed	21	12	14.1
Crab & salmon - Alaska	mixed	51	9	13.9
Salmon, tuna, & crab - Oregon & Washington	mixed	26	7	13.4
Salmon and tuna - Oregon & Wash.	trolling	17	9	13.3
King & tanner crab-AK	pots	140	15	12.8
Salmon and tuna - Oregon & Wash.	trolling	31	13	10.5
Salmon, tuna, crab, shrimp, & groundfish - Oregon & Washington	mixed	50	5	10.0
Salmon - Ore./Wash.	gillnet	11	9	9.8
Salmon and halibut - Ore./Wash./Alaska	mixed	25	5	9.0
Salmon - Ore./Wash./Ak.	trolling	17	6	8.7
Salmon - Alaska	gillnet	11	8	8.1
Salmon and crab - Oregon & Wash.	mixed	21	4	7.2
Salmon - Ore./Wash./Ak.	purse seine	46	8	4.5
Salmon - Ore./Wash./Ak.	purse seine	28	5	2.6

30/ Noetzel, Bruno G. Revenues, costs, and returns from vessel operation in major U.S. fisheries. NMFS, NOAA. Feb., 1977. 23 p. (Profit calculated as gross revenue minus fixed and variable costs; fuel costs calculated from Table 18 where they are given as a percent of gross revenue)

Discussion of Impacts on U.S. Fishing Industry

Because of the great variety of harvesting methods and the individualized operation of each vessel, it is difficult to compare relative impacts of fuel prices on harvester competitiveness. However, some trends are indicated.

Pacific Northwest U.S. fisheries shown in Table 1 can be compared for the fuel cost disadvantage experienced by U.S. harvesters using higher priced diesel fuel (calculated as a percent of the ex-vessel landed value of the fisheries harvest on a per pound basis). Figures ranged from a low of slightly more than 2 percent for a king crab vessel and 3 percent for a salmon gillnetter to a high of more than 14 percent for a Southeast Alaska salmon purse seiner based in the State of Washington and 15 percent for another salmon gillnetter. Purse seining (6.4 to 14.0 percent) and gillnetting (3.1 to 15.1 percent) for salmon showed great variation in harvesting efficiency and impact of higher fuel prices. Drag fishing also indicated a relatively great range in impacts -- 4.7 to 12.0 percent. Mixed fisheries for salmon, crab, and albacore tuna showed a moderate range of impacts (3.2 to 9.6 percent). Figures for king crab (2.3 to 3.5 percent), halibut (2.7 to 4.3 percent), and West Coast shrimp harvesting (5.9 percent) indicated lesser impacts.

New England fisheries may incur a larger impact than Pacific Northwest operations. Comparative fuel cost disadvantages (as a percent of landed value) for various New England fisheries illustrate this situation -- haddock (16.5 percent), scallops (7.4 to 15.9 percent), American lobster (9.7 to 13.2 percent), cod (11.3 percent), flounder (7.0 percent), and perch (redfish ?) (4.5 percent). This comparatively greater impact of increasing fuel price on New England fisheries was also documented in a 1974 NMFS report.[31/] This report calculated that New England commercial fisheries landed $3.59 worth of product for each gallon of fuel consumed during 1972 while the comparable value for the Pacific Northwest was $6.63 worth of fisheries product for each gallon of fuel consumed. This NMFS report, although dated 1974, contains analysis helpful in fully understanding the effects of increasing fuel prices on the U.S. fishing industry and is attached as Appendix D for further reference.

The competitive impact of lower Canadian fuel prices on the U.S. fishing industry would be related to the percent of the ex-vessel product value which must be committed to fuel costs in the U.S. beyond what Canadian harvesters must pay. However, because expenses other than fuel can vary considerably between fisheries, a comparison of fuel costs as a percent of profits would be more suggestive of actual impacts.

Thus, a second comparison can be made from calculations of the percent of potential profits lost because of increased fuel costs (Table 2). Prior to 1980, much of the impact of increasing fuel costs had been compensated for by increasing ex-vessel prices for fisheries items. Between 1974 and 1979, diesel fuel prices rose from 26.7 cents per gallon to 47 cents per gallon (76.0 percent increase)[32/] while the ex-vessel price

---

[31/] Penn, Erwin S. Economic impact of price increase and supply shortage of fuel on the U.S. fishing industry. Economic Research Div., NMFS. June, 1974. 58 p.

[32/] A disheartening day in Washington. The Fish Boat. May, 1980. p. 33, 81-84.

index for fisheries items rose from 238.7 to 443.4 (index values where 1967=100) for an increase of 85.8 percent.[33/] However, fuel prices have inflated much more rapidly in 1980 than ex-vessel fisheries prices; the latter have declined in some cases because of consumer resistence to high fish prices. Thus, the higher the fuel costs relative to profits (Table 2), the more severe the impacts of competition with foreign fisheries benefitting from inexpensive fuel.

In the Pacific Northwest, these calculations indicate drag fishing (21.7 to 27.0 percent from Table 2) may be most affected (or impacted earlier) by fuel price increases than other fisheries. Albacore tuna trolling (26.5 percent from Table 2) and halibut longlining (41.5 percent from Table 2) also appear susceptible to fuel price increases. Least impacted (or experiencing the most delayed impacts) may be salmon seining (2.6 to 4.5 percent from Table 2) and gillnetting (8.1 to 9.8 percent from Table 2). Moderate impacts might be expected for most of the mixed fisheries harvesting a combination among salmon, albacore tuna, crab, shrimp, and groundfish. These harvesters have some ability to shift harvesting emphasis among species to maintain the most profitable operation.

Outside the Pacific Northwest, the New England groundfish industry, the Gulf of Mexico shrimp fishery, and Southern California yellowfin tuna seiners struggle with increasing fuel costs. In 1977, fuel costs for these fisheries were already near or exceeding 100 percent of their

---

[33/] Fisheries of the United States, 1979. National Marine Fisheries Service. Current Fishery Statistics No. 8000. Apr., 1980. 131 p.

profit. These operations can be expected to face severe competitive challenge from Canadian and Mexican harvesters benefitting from less expensive diesel fuel.

Several comments should be expressed concerning the underlying assumptions of this analysis. Fishing methods, being highly individualized, have the capacity for becoming quite responsive to costs through efforts to improve fishing efficiency. Different combinations of species can be sought from home ports at various distances from fishing grounds. As fuel costs rise, certain less efficient practices can be foregone in the interests of reducing costs. An excellent example of this case relating to fuel efficiency in fish harvesting was recently published in one of the trade publications of the fishing industry.[34] Trade-offs between vessel speed and fuel consumption are acknowledged by harvesters, but their magnitude is often not well known. In the published example, a reduction in speed of "only 100 to 125 rpm (1 knot) off the top end produced an immediate 50 percent drop in fuel burned." Such savings, if widely employed by the U.S. fishing industry, might significantly reduce the advantage experienced by Canadian harvesters using lower-priced fuel.

Additionally, the lower the price of fuel (theoretically), the less powerful the incentive to become fuel efficient. Thus, Canadian harvesting efficiencies could be lower than U.S. efficiencies. Information to substantiate this supposition could not be obtained. Also, U.S. efficiencies could have increased since 1977 when the data utilized in this analysis were collected. If U.S. harvesting efficiency has risen, the impacts currently experienced by the industry could be less severe than this analysis suggests.

---

[34] Fuel: Some ideas on containing spiraling fuel costs. Pacific Fishing. March, 1980. pp. 26-27, 40.

Other than vessel speed, a number of other fuel saving strategies have been offered by various sources. Refined hull construction requiring less fuel to move a vessel through the water is one suggestion. The resumption of sail for some fishing vessels has been advocated. One builder in Washington is already producing sail vessels for use in the salmon and albacore tuna fisheries.[35] As costs for the harvester increase, a variety of less efficient practices can be eliminated to maintain acceptable profit margins.

The pinch of rising fuel costs could give an advantage to large, vertically integrated fishing businesses which have the capacity for subsidizing increasing fuel costs in one portion of their business by the institution of alternative energy strategies in another segment of the same business. Responding to these concerns, a large fishing operation might convert shore facilities to coal or another alternative energy source and redirect any savings toward maintaining adequate diesel fuel for harvesting.

---

[35] Sullivan, Tim. The boatbuilding boom hits the skids. National Fisherman. April 30, 1980. 60(13): 15.

CONCLUSIONS

The government of Canada has developed a variety of programs to assist their commercial fishing industry. While rigorous analysis of these programs' impact on the competitiveness of the U.S. fishing industry is difficult because of data and methodological constraints, several trends are indicated.

Government assistance to the fishing industry in Canada has declined in recent years as programs have been discontinued in response to threats of countervailing duties on exports to the U.S. However, the availability of less expensive diesel fuel in Canada provides variable and, in some cases, substantial benefits dependent upon the harvesting efficiencies of the different fisheries. The fishing industry of New England appears somewhat more impacted by these differences than that of the Pacific Northwest.

YOUNG'S LOBSTER POUND
R.R. YOUNG, PROP.

MITCHELL AVE., BELFAST, MAINE 04915
PHONE 338-1160

LOBSTERS FROM THE CLEAR AND SPARKLING
WATERS OFF THE COAST OF MAINE
SHIPPED ANYWHERE IN THE U.S.A.

November 30, 1981

Senator William Cohen
Washington
D.C.

Dear Senator Cohen:

Thank-you for your interest in our problems with the Canadians. We are one of many in the lobster business, caught by the importation of Canadian Lobster Meat at prices far below our costs let alone trying to show a profit.

They import lobster meat in all forms, fresh canned and frozen. Some of it is called New Hampshire pack which means it is supposedly to be legal by the Maine Lobster Measure.

In Canada they can take lobsters which are not legal in Maine. Some of these find there way into Maine in the form of Lobster Meat. These sub-legal lobsters are bought by Canadian Dealers at roughly half the price of legal Maine Lobsters.

Canadian Lobster Meat has been selling at $4.60 lb to $9.00 lb.. It takes 4½ lbs. of lobsters to pick one pound of meat. Lobsters our cost this day are $2.75 lb., bringing our cost price at $12.38 lb. for lobster meat.

I don't know what the answer is, whether an outright ban on Canadian meat is the answer or a tarriff to bring their prices equal to ours in Maine. Fair competition is all we ask.

Thank-you for this opportunity.

Sincerely,

Robert R. Young
Robert R. Young
YOUNG'S LOBSTER POUND

RRY:emy

Haugen and Thoreen
ATTORNEYS AT LAW
4055 21ST AVENUE WEST
SEATTLE, WASHINGTON 98199
(ADJACENT TO FISHERMEN'S TERMINAL)

PHONE (206) 285-8393

HENRY HAUGEN

HAROLD A. THOREEN
LISE KENWORTHY

October 29, 1981

Mr. William Stelle
Senate Subcommittee on Government Oversight
Senate Committee on Government
Room 3306
Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Stelle:

You recently inquired about Canadian subsidy programs in fisheries which affect the U.S. industry. I supplied you with some background information on this problem and you might be interested in the following items of current concern:

1. On October 3, 1981, Canadian Fisheries and Ocean Minister Romeo LeBlanc announced a new federal program to control marketing by:

   A. Reducing the number of exporters;

   B. Setting quotas to meet export markets;

   C. "We need to stop dumping, putting products onto the market with no concern for negative impacts."

   D. Increasing the power of the Fisheries Price Support Board.

2. A. C. Devie, Inc., a Canadian shipyard specializing in fishing vessel construction, received a government grant of $254,400.00 to expand its shipyard.

3. The Canadian Fisheries Department adopted new standards for on-board fish handling and will provide subsidies of up to $1,000 per vessel to meet the standards.

4. The Quebec Department of Agriculture, Fisheries, and Food, has increased its 1981-1982 fisheries budget by 27%. Highlights of the budget are:

   A. $3.7 million for 35% boat building subsidies plus interest free loans;

Mr. William Stelle
October 29, 1981
Page Two . . .

B. Aid up to 20% for plant modernization; and

C. Grants of 25 to 50% for fishing gear.

5. The Canadian Department of Regional Economic Expansion will provide a grant of 75% of the costs of building cod salting sheds in New Brunswick.

6. The Canadian Fisheries Department announced a $7 million program to develop the commercial fisheries of Prince Edward Island.

All of the above items are reported for a single month, do not include the traditional research and development projects, represent real dollars going directly into the private sector, and directly affect the United States markets which is *the* market for Canadian product. U.S. fishermen do not get interest-free loans, let alone direct subsidies, and traditional government research and development will be reduced significantly.

Until our government is willing to recognize the extent and pervasiveness of the on-going subsidy programs of foreign nations exporting fishery products to the United States, there is little hope for corrective action under our existing free and fair trade acts. Ther is something seriously wrong with our economic policies when a senior foreign official can publicly admit to "dumping" and subsidy programs while the U. S. allocates 3.6 billion pounds of its fishery resources to foreign nations and imports $3.6 billion of fishery products. The domestic industry will not reach its potential until the imports are brought under control.

Very truly yours,

HAUGEN & THOREEN

Henry Haugen

HH;ljw
cc: William C. Gordon
Director, NMFS

U.S - CANADA TRADE POLICIES
IMPACT ON BORDER STATE INDUSTRIES

SUBCOMMITTEE ON OVERSIGHT OF
GOVERNMENT MANAGEMENT
of the
COMMITTEE ON GOVERNMENTAL AFFAIRS

November 17, 1981

New Bedford Seafood Council, Inc.
New Bedford, Massachusetts
Charles H. Fritts
Legislative Counsel

The New Bedford Seafood Council represents over 180 vessels and 1500 crewmen who fish out of the port of New Bedford, Massachusetts. In terms of the value of landings, New Bedford is the largest commercial fishing port on the East coast.

We are extremely concerned about the large quantities of fish products that are imported into the New England area from Canada. Due to the large quantity and very low price of the imports the American market and industry suffer.

Canada is the world's largest exporter of fish. The United States is Canada's largest market. Approximately 85% of the fish caught in Maritime Provinces is exported to the United States.

Most of these exports are sold through the markets in New England. In 1980, Canada exported 481.5 million pounds of edible fish, valued at $ 560.6 million into the United States.

The tremendous quantities of Canadian product are sold at prices far lower than the American product. This is due in large part to the assistance the Canadian federal government and the provincial governments provide their fishing industry. There is a broad range of assistance programs available to Canadian fishermen. The major programs are as follows:

1. Vessel Construction or Purchase Assistance.

These are direct grants to the fishermen to build or purchase a fishing vessel. The grants are from both the federal and provincial governments. The grants are approximately 40% of the cost of the vessel.

Low interest guaranteed loans are also available to assist in the construction or purchase of a vessel. The current program subsidizes interest rates in excess of eight percent (8%).

2. Shoreside Facility Construction or Improvement.

Under the Department of Regional Economic Expansion, the Canada Community Development Project, and provincial fisheries development programs, shoreside facilities such as processing plants,storage facilities, ice making facilities, wharves and harbors are built and improved. This is done through low interest loans, guaranteed loans and direct grants.

3. Fishing Gear Purchase Assistance.

The federal and provincial governments provide direct grants and loans to assist in the purchase of fishing gear.

4. Price Supports.

There is a Fisheries Price Support Act which serves the purpose of maintaining the prices of fish. Under the Act, fish products are purchased and / or deficiency payments are made to fishermen when the price of fish drops too low.

5. Operating Expense Subsidies.

Direct payments to assist processing plants in paying wages and other operating expenses are available from some of the provincial governments.

6. Vessel Insurance.

The federal government insures the owners and operators against the loss of the fishing vessel.

7. Fuel Prices.

The price of diesel fuel in Canada is significantly lower than that in the United States. The price of fuel in Canada is regulated by the government. Due to recent increases in the price of fuel in the United States, this has become a significant advantage enjoyed by Canadian fishermen.

8. Transportation Expenses.

The Maritime Provinces enjoy a transportation discount that allows them to ship their products within Canada at very low costs. This is done to enable the products produced in distant parts of Canada to compete with products produced closer to the consuming areas. Although this transportation discount is intended for domestically consumed products only, it is taken advantage of by exporters.

It is extremely difficult to break down the value each of these programs or to show the impact of all of the programs on the price of Canadian fish products, especially the long term capital improvement programs. It is obvious that the programs to acquire and improve vessels and facilities will significantly reduce the Canadian fishermen's operating costs. The following simplified hypothetical may be helpful to clarify the impact of the subsidies. Assume that the purchase price of the vessel is $ 100,000. Twenty percent(20%) is required as a down payment.

The financing terms at current market rates are seventeen percent (17%) over a fifteen (15) year period.

The Canadian fisherman takes advantage of the vessel purchase assistance program of twenty-five percent (25%) of the purchase price and the loan assistance program which subsidizes interest rates in excess of eight percent (8%).

U.S.

Purchase price	$ 100,000
Down payment	$ 20,000
Amount financed	$ 80,000
Monthly payments to amortize 80,000 at 17% over 15 years	1,231.20

Canada

Purchase price	$ 100,000
25% Subsidy	$ 25,000
Subsidized cost	$ 75,000
Down payment	$ 15,000
Amount financed	$ 60,000
Montyly payments to amortize 60,000 at 8% over 15 years	$ 573.44

The Canadian fishermen acquires his vessel with a substantially smaller cash down payment. Thereafter, his monthly carrying charge on the vessel are less than one half of the American fishermen's.

Subsidized construction of ice making facilities, storage facilities processing plants, and wharves will also be reflected in the Canadians fishermens operating cost. Because their costs are lower they can afford to underprice their product in the market.

The tremendous volume of low priced imports results in depressed prices for U.S. fishermen. In recent years the Canadian have increased their level of fresh fish exports to the United States. In prior years the Canadian imports were, in large part, in the form of frozen blocks. This shift is taking its toll the U.S. industry because our primary market is the fresh fish market.

The price of frozen fish does affect the fresh fish market to some degree. Now that the Canadians are moving more heavily into direct competition in the fresh fish market, we will not be able to survive their subsidized competition.

We have investigated the possibility of bringing a countervailing duty or dumping case. A major problem we have in making the case, where the U.S. government should assist in, is the idenfification, definition, valuation and economic impact of Canadian subsidies. The U.S. Department of Commerce, International Trade Commisssion and the Special Trade Representative are in a better position to gather and analyze this information. The above mentioned offices have the personnel, facilities, and expertise to oversee unfair trade practices and trade law violations. More importantly, they have the authority to demand full and accurate information.

We recommend that the law be amended to create certain presumptions regarding causation and injury when the value of the subsidies to the industry producing the particular product reaches a certain level.

Finally, many remedies under the trade laws have an escape clause wherein action againist a violator can be waived for reasons of national interest, an agreement to cease the practice by the violator, or certain trade negotiantions are in progress. In previous trade cases involving fish from Canada the U.S. government announced its intention to waive countervailing duties despite the finding of a bounty or grant to the Canadian fishing industry. This procedure invites exporting countries to test our laws. It also makes the reward of bringing a trade case very questionable in that the plaintiff could prove his case and still go home empty handed.

It is the policy of the United States under the F.C.M.A. to promote and develop the domestic fishing industry. In recent years the industry has grown but not as rapidly as it could have. We can stand foreign competition when the rules are the same for everyone. We cannot compete with subsidized underpriced imports.

We appreciate your efforts to alleviate this problem by making sure the U.S. government does its job to protect the New England fishing industry from unfair competition.

Should the Committee have any questions or require additional information we would be glad to assist in any way.

A REGIONAL COMPARISON OF STUMPAGE VALUES IN BRITISH COLUMBIA AND THE UNITED STATES PACIFIC NORTHWEST

by

David Haley[1]

ABSTRACT

In this paper, stumpages in British Columbia are compared with those in the Pacific Northwest region of the United States where public timber is sold in highly competitive markets. In 1978, the average stumpage for public timber in the Pacific Northwest was $39.11/m^3 compared to $4.58/m^3 in British Columbia. Between 1963 and 1978, real stumpage prices in the Pacific Northwest (i.e. net of inflationary increases) showed an upward trend of almost 11% per annum compared to a slight downward trend for British Columbia. Although the appraisal method used by United States Forest Service is similar to the method used in British Columbia, appraised stumpages for the British Columbia Coast are considerably lower than for western Washington.

There is little doubt that the principle reason for higher stumpages in the Pacific Northwest is that all public agencies involved in timber production encourage competitive bidding for standing timber, whereas in British Columbia competitive sales of public timber have been virtually eliminated. Other reasons include tax considerations on the part of firms in the Pacific Northwest with private timber holdings, the higher average quality of the timber resource in the Pacific Northwest compared to British Columbia and the fact that forest products companies in the Pacific Northwest face better market opportunities, particularly with respect to plywood, than their counterparts in British Columbia. Imperfections in the Vancouver Log Market may partially explain why appraised timber values in western Washington are higher than on the British Columbia Coast.

---

[1] Associate Professor, Faculty of Forestry, University of British Columbia, Vancouver, B.C.

Introduction

Stumpage is the price paid to the owner of forest land for the right to harvest standing timber. To land owners it constitutes the return for timber produced while logging operators regard stumpage as a cost.

The maximum amount a purchaser can afford to pay for standing timber is the value of the products which can be recovered from it, less the total costs, including a normal profit, of realizing those values. This residual value is the "economic rent" associated with the timber resource (Reed & Associates, 1975). In a competitive market for standing timber, the successful bidder will tend to be the most efficient operator, that is, the operator who can realize the highest net return from timber harvesting and processing. Competitive sales will, therefore, ensure that forest land owners obtain the highest possible prices for their standing timber and that stumpage paid is equivalent to the full amount of the economic rent attributable to the timber resource.

In British Columbia, where almost 95% of the forest land is Provincially owned, competitive sales of public timber are rare as a result of explicit government policies designed to delegate responsibilities for the management of public forest land to the private sector and, by protecting "established operators" from the vaguaries of the marketplace, encourage greater capital investment in the forest industry (Pearse, 1976). In the absence of competitive markets, most public timber is sold at prices determined by the British Columbia Forest Service by means of an elaborate stumpage appraisal system. This system was described in detail by the Task Force on Crown Timber Disposal (1974). While some modifications have been made to the appraisal system since the Task Force reported, it remains essentially the same.

It is a matter of some public concern in British Columbia as to whether appraised stumpages truly reflect the full value of the Province's timber resource. That is, do appraised stumpages approximate the timber values which would result from the operation of freely competitive market forces for the resource? This is more than just an academic question. In the absence competition for most timber sales, the stumpage appraisal system determines the direct revenue the Province obtains from Crown timber resources and the cost to the Province's largest and most important industry of most of its raw material supplies.

The extent to which British Columbia's stumpage appraisal system does provide reliable estimates of the full market value of the timber resource might be investigated by comparing competitively determined market prices with appraised prices. On those occasions when competitive sales for standing timber do take place in British Columbia, prices are generally bid well above appraised values. Such sales are infrequent, however, and generally are for small, atypical parcels of timber.

An alternative to comparing competitive and non-competitive determined timber values within the Province is to compare stumpages in British Columbia with those in the Pacific Northwest region of the United States[2] where there is a considerable public timber resource which is sold in highly competitive markets. While such regional comparisons must be interpreted with caution, some interesting and useful insights into the pricing of Crown timber in British Columbia can be gained from such a study.

In this paper, stumpage prices in British Columbia and the United States Pacific Northwest are first compared in a general manner. This is followed by a more detailed comparison of stumpage appraisals and timber values for the Mt. Baker/ Snoqualmie National Forest in Washington State and the Quadra Public Sustained Unit (P.S.Y.U.) in southwestern British Columbia.

Regional Perspective

British Columbia has a total area of 95 million hectares compared to 42 million hectares in Washington and Oregon. In each region more than half the total area is classified as forest land: 55% in British Columbia and 51% in Washington and Oregon. The quality of the timber resource in Washington and Oregon is, on average, higher than British Columbia. Not only do the forests of the Pacific Northwest produce a higher quality mix of log grades but the timber inventory contains a much greater proportion of higher valued species. For example, 48% of the timber inventory in the Pacific Northwest is Douglas-fir (Pseudotsuga menziesii (Mirb.) Franco) compared to 7% in British Columbia (C.O.F.I., 1973).

---

[2] For purposes of this study the Pacific Northwest includes the states of Washington and Oregon.

While both Washington and Oregon have some extremely rugged areas, on the whole the terrain in British Columbia, particularly on the Coast, presents more logging difficulties. The social infrastructure is less developed in British Columbia than in the Pacific Northwest and the British Columbia logging industry operates in more remote locations which present major logistical problems.

Forest land ownership differs markedly between British Columbia and the Pacific Northwest. In British Columbia, 95% of the forest land is publically owned (94% Provincial and 1% Federal) and only 5% is in private ownership. In contrast, 42% of the forest land in Washington and Oregon is privately owned, 51% is under Federal jurisdiction, 6% is under State jurisdiction and 1% is controlled by local county and municipal governments.

The allowable annual cut for public forest lands in British Columbia in 1977 was 84 million cubic meters compared to 36 million cubic meters for public forest lands in Washington and Oregon[3]. The allowable annual cut in the Pacific Northwest has been almost constant for a number of years and has risen by only four million cubic meters, or about 13%, since 1963. In certain areas, for example National Forest lands in Washington state, allowable annual cuts have declined considerably in recent years.

In British Columbia, the allowable annual cut for public forest lands in 1977 was more than three times the 25 million cubic meters reported for 1963. This increase can largely be attributed to the expansion of forestry operations in the Interior and northern regions of the Province and the adoption and enforcement, in the mid-1960's, of much closer recovery standards (Pearse, 1976). However, with increasing pressures on forest land for non-timber uses and increasing recognition that many stands, currently

---

3. The units of wood measurement used in the Pacific Northwest and those used in British Columbia are entirely different. In the Pacific Northwest the Scribner Decimal C. Board Foot Rule is the most commonly used log scale while in British Columbia the only official scale is the B.C. Firmwood Cubic Rule. The conversion factor from Scribner Decimal C to B.C. Firmwood is a function of log diameter and gross volume. In this paper an average conversion factor of 1.85:1 is used (i.e. 1.85 cunits = one thousand board feet; or 1 cubic ft. = approx. 5.4 board feet). All volumes have been converted to cubic meters.

included in the allowable cut calculation, are sub-marginal, it is unlikely that allowable annual cuts will increase significantly in the future. In fact, in some areas reductions in allowable cuts appear imminent (Province of British Columbia, 1980).

Comparison of Average Stumpage Prices

In 1978, the average stumpage price paid by the forest industry for public timber in Washington and Oregon was $39.11 per cubic meter compared to $4.58 per cubic meter in British Columbia[4]. In the Pacific Northwest, average stumpage prices ranged from $18.60 per cubic metre for United States National Forests in Eastern Washington to $50.76 per cubic metre for Washington State lands in Western Washington. In British Columbia, average stumpage prices for 1978 ranged between $5.14 per cubic metre in the Kamloops Forest Region to $2.37 per cubic metre in the Interior section of the Prince Rupert Forest Region.

Between 1963 and 1978 average stumpage prices for public timber in the Pacific Northwest increased at a considerably greater rate than in British Columbia (Fig. 1). In real terms (i.e. net of inflationary price increases) stumpage prices in Washington and Oregon showed an average upward trend during this period of almost 11% per annum compared to a slight downward trend for British Columbia (Figs. 2a and 2b). In British Columbia, therefore, in spite of increasing demands on the timber resource, the real cost of standing timber to the forest industry did not increase between 1963 and 1978. In the Vancouver Forest Region where industrial demands on the timber resource have been more intense than in most other regions of the Province, the real price of standing timber fell at an average rate of almost 2% per annum between 1963 and 1978.

Comparison of Stumpage Appraisals and Stumpage Prices for Mt. Baker/Snoqualmie National Forest and the Quadra Public Sustained Yield Unit

In order to examine the factors affecting stumpage prices in British Columbia and the Pacific NorthWest in more depth, a detailed comparison was made between sales of public timber during 1977 on the Quadra Public Sustained Yield Unit (P.S.Y.U.) in the Vancouver Forest Region and the Mt. Baker/Snoqualmie National Forest in Washington State. A comparison of stumpage appraisal components, appraised stumpage prices and realized stumpage prices for Douglas-fir on these two units is presented in Table 1. An attempt has been made to standardize the presentation of appraisal procedures in the two jurisdictions for comparative purposes, but some differences inevitably persist.

---

[4] Unless otherwise stated, all revenues, costs and prices quoted in this paper are in Canadian dollars.

Average logging costs in the Mt. Baker/Snoqualmie National Forest were 11% higher in 1977 than in the Quadra P.S.Y.U. However, the relative importance of certain cost components differed considerably between the two areas.

Selling prices used for appraisal purposes on the British Columbia coast are based on the prices of logs sold on the Vancouver Log Market, whereas in the United States, Pacific Northwest selling prices are based on the market value of lumber, veneer and pulp chips. In the United States, therefore, it is necessary to make an allowance for manufacturing costs in the appraisal. Log values can be estimated by subtracting manufacturing costs from end-product values. The imputed Douglas-fir log value for the Mt. Baker/Snoqualmie National Forest in 1977 was $59.03 per cubic metre which was more than double the $28.82 per cubic metre for the Quadra P.S.Y.U.

In the Rothery method of stumpage appraisal used in both British Columbia and the Pacific Northwest, the operator's profit and risk allowance is directly related to the selling price used for appraisal purposes. Thus, while the average profit ratio for Douglas-fir in the Mt. Baker/Snoqualmie National Forest (15.7%) was lower than in the Quadra P.S.Y.U. (16.9%), the profit and risk allowance in the former area was considerably higher. Of course, this higher profit margin included an entrepreneurial return to manufacturing in addition to logging activities.

The average appraised stumpage price for Douglas-fir in the Quadra P.S.Y.U. was only $0.17 per cubic metre and the advertised, or upset, price (statutory minimum) was $2.72 per cubic metre. On the Mt. Baker/Snoqualmie National Forest, the appraised stumpage price was $18.96 per cubic metre and the advertised price (appraised price plus "specified road" costs) was $27.43 per cubic metre. The average selling price, following competitive bidding on the Mt. Baker/Snoqualmie National Forest was $59.22 per cubic metre: 116% more than the advertised price.

Discussion

There are a number of possible reasons why stumpage prices in Washington and Oregon are considerably higher than in British Columbia. These include differences in: the institutional arrangement for the disposal of public timber; contractual conditions of sale; the supply and demand for timber in the two regions; logging, transportation and manufacturing costs; timber quality and market opportunities.

Clearly, the highly competitive nature of public timber sales in the United States, combined with the fact that in the Pacific Northwest the available supply of private timber is declining and the supply of public timber is heavily constrained on an annual basis (Haynes and Adams, 1979), results in stumpages frequently being bid well above their appraised level. In British Columbia, the market mechanism simply does not exist for translating rising demands for stumpage, or stumpage shortages, into higher prices and most timber is sold at the appraised, or upset, price.

It is frequently suggested that private timber owners in the Pacific Northwest, who can elect to have income derived from timber harvesting treated as capital gains for taxation purposes, have a vested interest in high market values for standing timber and, therefore, bid stumpages for public timber above the level they would otherwise attain. Stumpages, as determined in the marketplace, are used to calculate the income attributable to timber harvesting and are also regarded as the cost of timber inputs for determining subsequent incomes or losses from timber processing. Therefore, the higher the market value for standing timber the greater will be that proportion of an integrated forest product company's total income which is regarded as capital gain. While it is likely that such tax considerations will influence the bidding strategies of certain firms, it is difficult to determine the extent to which they affect average bid stumpages for public timber. Many successful bidders for public timber are firms which do not have private timber holdings.

Not only are selling prices for public timber higher in the Pacific Northwest than in British Columbia, but appraised stumpages for United States National Forests are also considerably higher, although the appraisal system used in both regions is similar in many respects. Higher appraised prices might result from lower costs, smaller allowances for profit and risk or higher product values.

In 1977, appraised logging costs for the Mt. Baker/Snoqualmie National Forest were 11% higher than in the Quadra P.S.Y.U. The Council of Forest Industries have also found logging costs on the British Columbia Coast and in the Interior to be lower than for comparable regions in the Pacific Northwest (C.O.F.I., 1973). Manufacturing costs are not required for British Columbia coastal appraisals. However, manufacturing costs used in United States Forest Service appraisals in the Pacific Northwest do not seem to be disimilar to manufacturing costs experienced in British Columbia. The Council of Forest Industries (C.O.F.I., 1973) found appraised manufacturing costs in the southern British Columbia Interior to be considerably lower than those used by the United States Forest Service for stumpage appraisals in eastern Washington. The Department of Industry, Trade and Commerce (1977) in a study of North American forest products' manufacturing costs also showed lumber manufacturing costs in the British Columbia Interior to be considerably lower than in the Pacific Northwest while lumber manufacturing costs on the British Columbia Coast were slightly higher. Higher logging and manufacturing costs in the Pacific Northwest, other things being equal, would result in lower appraised stumpage prices for that region than for British Columbia.

Profit ratios used in stumpage appraisals by the United States Forest Service in the Pacific Northwest are of a similar magnitude to those used in British Columbia. The method of calculating the margin for profit and risk is identical in both regions.

It appears, therefore, that differences in appraised stumpages between British Columbia and the Pacific Northwest are mainly due to differences in the selling prices used for appraisal purposes in the two regions. Sales realizations for forest products are dependent on a number of factors including the quality of the wood supply, the mix of products produced and sold, the markets in which the products are sold, the costs of transportation to markets, tariffs and foreign exchange rates.

The quality of the wood supply is indisputably higher in Washington and Oregon than in British Columbia (C.O.F.I., 1973). It is difficult to accurately compare timber quality and assess its impact on appraised stumpages since official grading rules differ considerably between the two jurisdictions. Nevertheless, an attempt has been made to compare the quality of Douglas-fir on timber sales in the Quadra P.S.Y.U. and the Mt. Baker/Snoqualmie National Forest in 1977 (Table 2). Neither area provided a high proportion of first quality logs (No. 1 & No. 2 Peelers and No. 1 Sawlogs). However, Mt. Baker/Snoqualmie National Forest had a much higher proportion of intermediate grades (low grade Peelers and No. 2 Sawlogs) than Quadra P.S.Y.U. Sixty-four percent of the volume of Douglas-fir appraised in the Quadra P.S.Y.U. was concentrated in No. 3 Sawlogs and lower compared to 19% for the Mt. Baker/Snoqualmie National Forest.

The impact of lower timber quality on appraised stumpages in the Quadra P.S.Y.U. can be estimated by assuming that the Douglas-fir appraised in 1977 had a grade distribution, by volume, identical to that experienced on the Mt. Baker/Snoqualmie National Forest. By applying Vancouver Log Market prices to the revised volume data it is possible to calculate a new weighted average selling price. Adjustment of the Douglas-fir volume and price data in this way increased the average selling price for 1977 from $28.82 per cubic metre to $36.98 per cubic metre and appraised stumpage from $0.17 per cubic metre to $7.13 per cubic metre. Thus, even when timber quality on the two areas is assumed to be identical, the appraised value for Douglas-fir on the Quadra P.S.Y.U. is still only 38% of its appraised value on the Mt. Baker/Snoqualmie National Forest.

It has been suggested (C.O.F.I., 1973) that opportunities for marketing timber products are better in the western United States than in British Columbia. However, to a large extent the forest products industries of British Columbia and the Pacific Northwest serve and compete in the same United States' markets for lumber, pulp and newsprint. Coastal British Columbia serves off-shore markets for forest products to a much greater extent than Washington and Oregon, but such market diversification might be considered to be an advantage enjoyed by Canadian producers.

High tariff barriers preclude the export of plywood from British Columbia to the United States. Therefore, most of the plywood produced in both British Columbia and the Pacific Northwest is sold domestically. The larger domestic plywood market in the United States gives plywood producers in Washington and Oregon a definite advantage over the industry in British Columbia. Greater market opportunities are available, the industry is larger and individual firms can achieve economies of scale in production which are unavailable to their British Columbia counterparts. In addition, Douglas-fir, the foremost plywood species, is more readily available in the Pacific Northwest and there is a higher proportion of peelable logs in the harvest. As a result, the forest product mix in the Pacific Northwest has a higher proportion of plywood than in British Columbia, which tends to increase its average value per unit volume.

The forest products industry in Washington and Oregon is closer to the major and burgeoning population centres of the western and southwestern United States and enjoys an advantage in those markets resulting from lower rail and truck transportation costs. However, to the major lumber markets of the midwest, freight rates from Washington, Oregon and British Columbia are comparable and British columbia producers, because of the United States Merchant Marine (Jones) Act, enjoy a distinct advantage in the United States' eastern seaboard market.

Considerable opportunites exist for firms in the Pacific Northwest to export logs, whereas in British Columbia federal and provincial restrictions effectively preclude log exports (Pearse, 1976). Export log prices are considerably higher, for many species and grades, than domestic prices (Davis, 1977) and it has been suggested (C.O.F.I., 1973) that exports increase average log values and, therefore, the prices firms are willing to bid on public timber in the Pacific Northwest. However, restrictions on log exports from Federal lands in the Western United States have existed since 1969 and, since 1974, there has been a virtual ban on such exports. In addition, regulations exist to discourage the substitution of public timber for private timber which is exported (Lindell, 1978). The state of Oregon has also had regulations since 1963 which effectively ban the export of logs from state managed lands. Washington state has no export restrictions and, as a result, stumpages for state managed timber, particularly in western Washington, are considerably higher than for National Forest timber sales.

Since 1977, the value of the Canadian dollar has fallen considerably *vis a vis* the United States dollar and other leading world currencies. Most of British Columbia's forest products exports are quoted in United States dollars, therefore, a fall in the Canadian dollar relative to the United States dollar improves the industry's competitive position and increases its revenues. Since the industry in Washington and Oregon sells most of its output in the domestic market, exchange considerations have little influence on its sales and profits.

The evidence presented thus far suggests that the differences in appraised stumpages between British Columbia and the Pacific Northwest are only partially explainable in terms of differences in timber quality and market opportunities between the two regions. Another possible explanation, worthy of consideration, is that due to imperfections in the Vancouver Log Market, log prices used for stumpage appraisal purposes in coastal British Columbia do not reflect full timber values. In 1974, the Task Force on Crown Timber Disposal in British Columbia investigated the Vancouver Log Market in some detail and concluded that the structure of the market "is not sufficiently competitive to yield prices that can be depended upon to reflect the full value of timber harvested". Studies prepared for the Task Force indicated that Vancouver Log Market prices "frequently diverge significantly from the values that would be implied by the prices of the products made from them".

While imperfections in the Vancouver Log market may help to explain differences between appraised stumpage values in coastal British Columbia and the Pacific Northwest, the Interior situation is entirely different. In the Interior of British Columbia, as in Washington and Oregon, stumpage appraisals are based upon end product values.

Conclusion

Stumpages for Crown timber in British Columbia are considerably lower than for public timber in the United States Pacific Northwest, and these price differences are increasing annually. There is little doubt that the principle reason for higher stumpages in the Pacific Northwest is that all public agencies, both state and federal, involved in timber production, encourage competitive bidding for standing timber whereas in British Columbia competitive sales for public timber have been virtually eliminated. Other reasons, of lesser importance, include tax considerations on the part of bidding firms in the Pacific Northwest with private timber holdings, the higher average quality of the timber resource in the Pacific Northwest compared to British Columbia and the fact that forest products companies in Washington and Oregon face better market opportunities, particularly with respect to plywood, than their counterparts in British Columbia.

There is good reason to believe that if public timber in British Columbia was sold competitively, stumpages, in many cases, would be bid well above their appraised level and Crown revenues would be substantially increased, particularly in those regions of the Province where accessible, high quality stands of timber are in short supply. One would also expect the real price of standing timber to show an upward trend over time, reflecting its increasing relative scarcity.

In the Pacific Northwest, as in British Columbia, public agencies appraise the value of standing timber before it is offered for sale. The appraisal method used by the United States Forest Service is similar, in many respects, to the method used by the British Columbia Forest Service. It has been demonstrated in this paper that appraised stumpages for the British Columbia Coast are considerably lower than for western Washington. These differences cannot be explained in terms of cost differentials between the two regions and are only partially explained by differences in timber quality. A possible additional explanation is that due to imperfections in the Vancouver Log market, log prices used for stumpage appraisal purposes in coastal British Columbia consistently fail to reflect full timber values, whereas the United States Forest Service uses end product values (lumber, veneer and chips) as a basis for stumpage appraisals which are determined in highly competitive markets.

The evidence presented in this paper suggests that appraised stumpages in British Columbia fail to reflect the full value of the Province's timber resource and that, in the absence of competitive markets for stumpage, public revenues from the production and sale of timber are much lower than they could be. Many questions are left unanswered, however, which should be investigated. For example, does the British Columbia government capture a substantial part of the economic rent arising from the utilization of timber resources in ways other than through direct stumpage payments? If the British Columbia government fails to capture the full value of the Province's timber resouces, where is the excess value being distributed, that is, who are the beneficiaries of "low cost" timber? If timber in British Columbia is being sold at less than its full market value, what are implications in terms of industrial efficiency, conservation of the timber resource and incentives for reforestation and more intensive resource management?

There is good reason to believe that if public timber in British Columbia was sold competitively, stumpages, in many cases, would be bid well above their appraised level and direct Crown revenues would be substantially increased, particularly in those regions of the Province where accessible, high quality stands of timber are in short supply.

LITERATURE CITED

British Columbia Forest Service. Annual Reports 1963 to 1978. Queen's Printer, Victoria, B.C.

Council of Forest Industries of British Columbia. 1973. A Regional Comparison of Stumpage, Taxation and Other Factors in the Forest Industries of British Columbia and the U.S. Pacific Northwest. Price Waterhouse & Co., Vancouver, B.C. 80 pp & 79 pp & Append.

Davis, D.K. 1977. Log Export Restrictions in British Columbia: An Economic Examination. M.Sc. Thesis, Faculty of Forestry, University of B.C., Vancouver. 114 pp.

Department of Industry, Trade and Commerce. 1977. Analysis of Manufacturing Costs in the North American Forest Products Industries. Prepared by Sandwell Mgmt. Consultants for Forest Products Group, Resource Industries Branch, Dept. of Industry, Trade and Commerce, Ottawa, Ont. 46 pp.

Haynes, R.W., and D.M. Adams. 1979. "Possible Changes in Regional Forest Product Output and Consumption During the Next 50 years". Forest Products Journal 29(10):75-80.

Lindell, Gary, R. 1978. Log Export Restrictions of the Western States and British Columbia. Pacific Northwest Forest & Range Exp. Station, Tech. Rep. PNW-63. USDA Forest Service, Portland, Oregon. 14 pp.

Pearse, P.H. 1976. Timber Rights and Forest Policy in British Columbia. Report of the Royal Commission on Forest Resources. Two volumes. Queen's Printer, Victoria, B.C. 395 + App.

Province of British Columbia. 1980. Five-Year Forest and Range Resource Program. Ministry of Forests, Victoria, B.C. 31 pp.

Reed, F.L.C. & Associates. 1975. Economic Rent and Stumpage. Brief submitted to the Royal Commission on Forest Resources. Vancouver, B.C. 27 pp.

Task Force on Crown Timber Disposal. 1974. Timber Appraisal: Policies and Procedures for Evaluating Crown Timber in British Columbia. B.C. Forest Service, Victoria, B.C. 185 pp.

United States Dept. of Agriculture, Forest Service. Production, Prices, Employment and Trade in Northwest Forest Industries 1963 to 1978 (published quarterly). Pacific Northwest Forest & Range Exp. Station, Portland, Oregon.

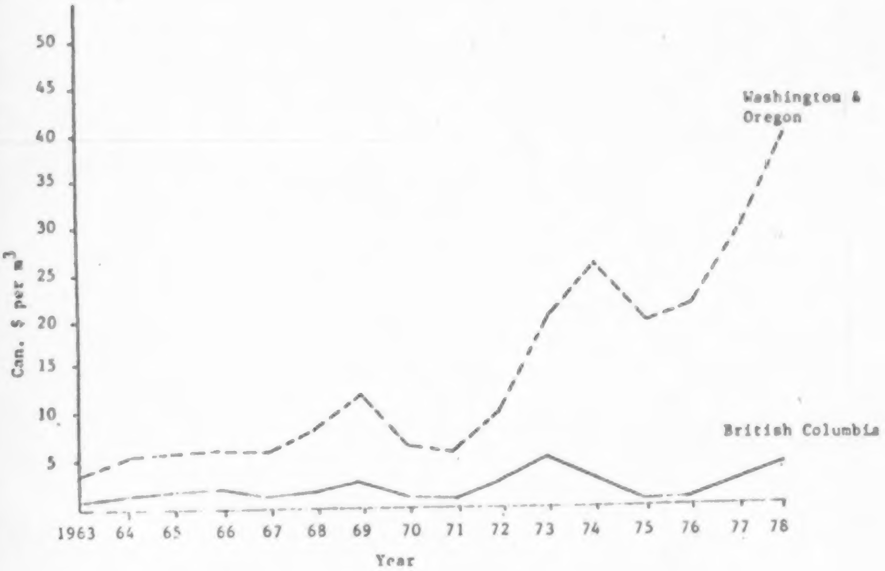


Figure 1.
Average stumpage prices for timber sold on publicly owned lands in Washington and Oregon and Crown lands in British Columbia 1963-78.

Sources. B.C. Forest Service, Annual Reports 1963-78
USDA Forest Service, Production, Prices, Employment and Trade in Northwest Forest Industries 1963-79 (published quarterly)

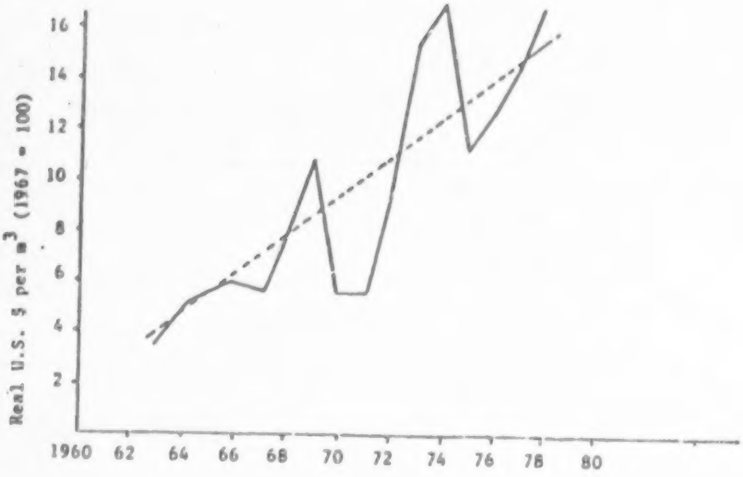


Figure 2a
Average stumpage prices in real dollars for timber sold on publicly managed lands in Washington and Oregon - 1963-78.

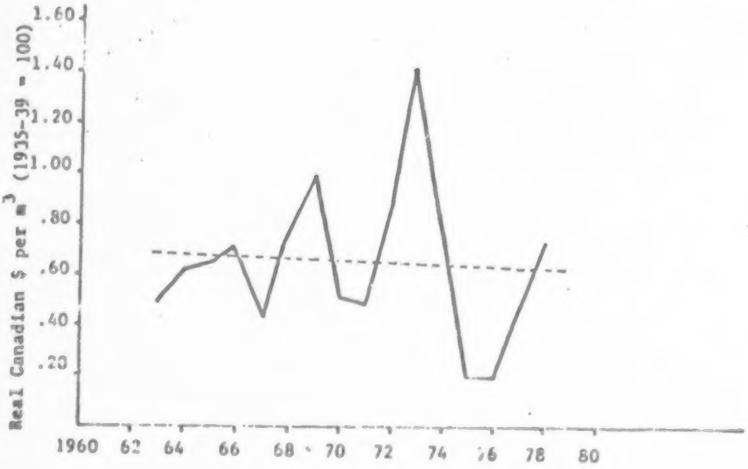


Figure 2b
Average stumpage prices in real dollars for timber,sold on Crown lands in British Columbia - 1963-78.

Table 2. Comparison of Douglas-fir timber quality on timber sales in the Quadra P.S.Y.U. and the Mt. Baker/Snoqualmie National Forest by log grade[1] - 1977.

Region	Log Grades:		
	No. 1	No. 2	No. 3
	(Percentage distribution by Volume)		
Quadra P.S.Y.U.	2	34	64
Mt. Baker/Snoqualmie National Forest	2	79	19

---

1. Log grades are difficult to compare since official grading rules differ markedly between the two jurisdictions. The grades shown in this table are loosely based on the British Columbia Forest Service statutory grading rules:

No. 1 includes higher quality peeler grades (Nos. 1 & 2) and No. 1 sawlogs.

No. 2 includes all other peeler grades and No. 2 sawlogs.

No. 3 includes No. 3 sawlogs and lower.

CANADIAN SOFTWOOD LUMBER IMPORTS

By M. J. Kuehne, Executive Vice President
Northwest Independent Forest Manufacturers

October, 1981

Current Situation:

- Canadian Softwood lumber imports amounted to 5.3 Billion board feet in the 1st 6 months of 1981, a record high 31.9% of U. S. consumption. Virtually all softwood lumber imports come from Canada.

- The rate of Canadian imports is 74% higher than it was in the previous housing market bottom of 1975. In 1975, Canadian imports averaged 472 million b.f. per month compared to an average of 823 million per month during the 18 month period ending June 30, 1981.

- During 1980 and the 1st half of 1981, U. S. Sawmills have run at only 80% of their average production in the 1977-79 period.

- If Canadian imports had remained at their 1975 level in 1980 and the 1st half of 1981 and market demand remained at the same level, U. S. sawmills would have been producing at 94% of their 1977-79 level.

- The difference between U. S. sawmills operating at 94% of the 1977-79 level and 80% is 4.2 billion board feet per year annual production.

- Between 35,000 and 40,000 sawmill and logging jobs are required to manufacture 4.2 billion b.f. of softwood lumber.

  Each lumber and logging job generates 2 jobs in service, supply and trade, etc. Thus, over 100,000 jobs are supported by the domestic manufacture of 4.2 billion b.f. of softwood lumber.

Canadian Subsidies:

- British Columbia, which accounts for 2/3 of Canadian lumber imports, allocates timber from provincial lands to sawmills on a non-competitive basis at rates far below the timber real market value. Nearly 95% of all timber in B.C. is on Provincial lands.

- A study by David Haley, a University of British Columbia professor, shows that timber from public lands in Oregon and Washington sells for 8½ times as much as it does in British Columbia.

- It is estimated that this gives British Columbia mills a 25% advantage in the price of lumber F.O.B. mill.

- Subsidized Canadian rail rates and energy rates also are contributing to give Canadian mills an unfair competitive advantage.

International Trade:

- Lower timber costs give British Columbia mills an insurmountable advantage in international markets.

- British Columbia finished lumber exports to Japan has grown from 681 thousand cubic meters in 1975 to 2,162 thousand cubic meters in 1981, increasing from 54.6% of North American exports to Japan to 72.5%.

CANADIAN SOFTWOOD LUMBER IMPORTS
AS A PERCENTAGE OF TOTAL U.S. CONSUMPTION
(In million board feet)

Year	U.S. Mills	Canadian Imports	Other Imports	Total U.S. Consumption	Canadian % of U.S. Consump'
1/ 1975	24,569	5,666	45	30,380	18.7
1/ 1976	27,608	7,905	45	35,558	22.1
1/ 1977	29,668	10,344	42	40,054	25.8
1/ 1978	29,623	11,764	77	41,464	28.4
1/ 1979	27,791	11,068	50	38,909	28.4
1/ 1980	22,831	9,514	25	32,370	29.4
2/ 1st half 1981	11,334	5,308	12	16,654	31.9
3/ Est.Total 1981	21,800	10,275	25	32,100	32.0
2/ Est.'75 - 1981	-2,769	+4,609	-20	+1,820	+13.3

Source:

1/ Western Wood Products Association
Statistical Yearbook of Western Lumber Industry, 1975-80
2/ National Forest Products Assn. - Fingertip Facts, August, 1981
3/ NIFM estimate based on current market conditions

Prepared by : Northwest Independent Forest Manufacturers

COMPARISON OF U.S. SOFTWOOD LUMBER -vs- PLYWOOD PRODUCTION DECLINE
1980 - 1st half 1981
COMPARED TO PRODUCTION 1977 - 1979

Year	Lumber Production (Million b.f.)	Plywood Production (Million s.f.)
High Market Period		
1977	30,987	19,376
1978	30,899	19,964
1979	29,879	19,653
Average Monthly	2,549	1,639
Depressed Market Period		
1980	24,335	16,468
1981 - 1st half	12,442	9,186
Average Monthly	2,043	1,425
Decline in production		
1980 - 1st half of 1981	19.9%	13.1%

Decline in U.S. Softwood lumber is 52% greater than decline in U.S. Softwood plywood production.

Source: Lumber - National Forest Production Association
Plywood - American Plywood Association

Prepared by: Northwest Independent Forest Manufacturers 9/81

A COMPARISON OF AVERAGE STUMPAGE BID PRICES OF TIMBER SOLD IN BRITISH COLUMBIA BY TIMBER SALE HARVESTING LICENSES AND TIMBER SALES COMPARED TO TIMBER SOLD IN OREGON & WASHINGTON FROM NATIONAL FOREST LANDS, DURING 1970-80

(In U.S. $/Thousand board feet, scribner scale)

Year	Coastal D. Fir			Interior D. Fir			Hemlock			Cedar			All Species		
	FS	BC	Diff	FS	BC	Diff	FS	BC	Diff	FS	BC	Diff	FS	BC	Diff
1970	42	25	17	8	10	-2	20	8	12	15	6	9	27	8	19
1971	49	17	32	4	14	-10	21	6	15	17	5	12	30	7	23
1972	72	21	51	16	26	-10	49	7	42	68	7	61	53	14	39
1973	138	33	105	60	49	11	99	16	83	147	24	123	103	29	74
1974	202	32	170	68	29	39	111	12	99	217	12	205	142	16	126
1975	170	13	157	34	3	31	68	6	62	119	3	116	102	4	98
1976	176	16	160	39	4	35	78	3	75	160	6	154	113	4	109
1977	226	21	205	71	11	60	89	6	83	150	21	129	154	7	147
1978	250	18	232	98	39	59	112	6	106	207	46	161	185	21	164
1979	394	47	347	82	55	27	197	14	183	329	75	254	270	34	236
1980	432	76	356	71	28	43	208	27	181	301	27	274	286	24	262

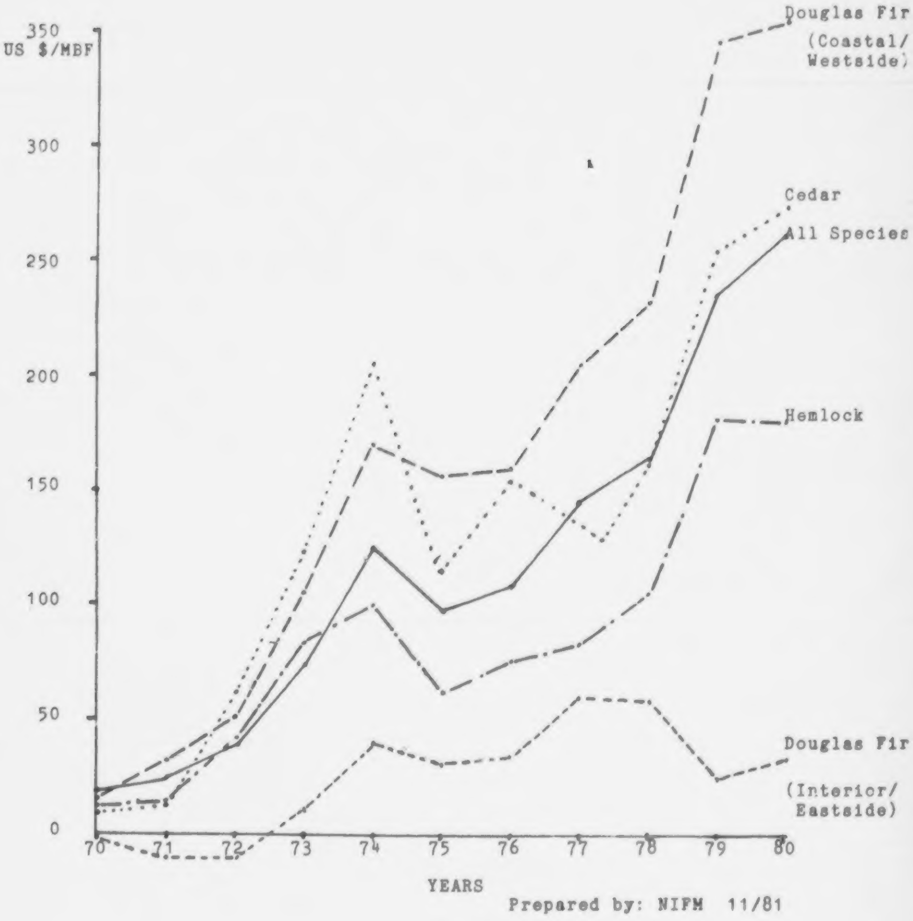
Note: The following conversions were used: Canadian to U.S. $ 1970-.958; 71-.990; 72-1.009; 73-1.000; 74-1.022; 75-.931; 76-1.014; 77-.941; 78-.877; 79-.850; 1980-.850. $/cunit to $/thousand board feet multiply by 1.85; $/cubic meter to $/thousand board feet multiply by 5.24

Source: B. C. Forest Service Annual Reports 1975-80
USDA Forest Service, Production, Prices, Employment & Trade in Northwest Forest Industries, first Quarter 1981

Prepared by: Northwest Independent Forest Manufacturers 11/81

DIFFERENCE IN STUMPAGE BID PRICES OF TIMBER SALES SOLD FROM PROVINCIAL LANDS IN BRITISH COLUMBIA & FROM NATIONAL FOREST LANDS IN OREGON & WASHINGTON, DURING 1970-80

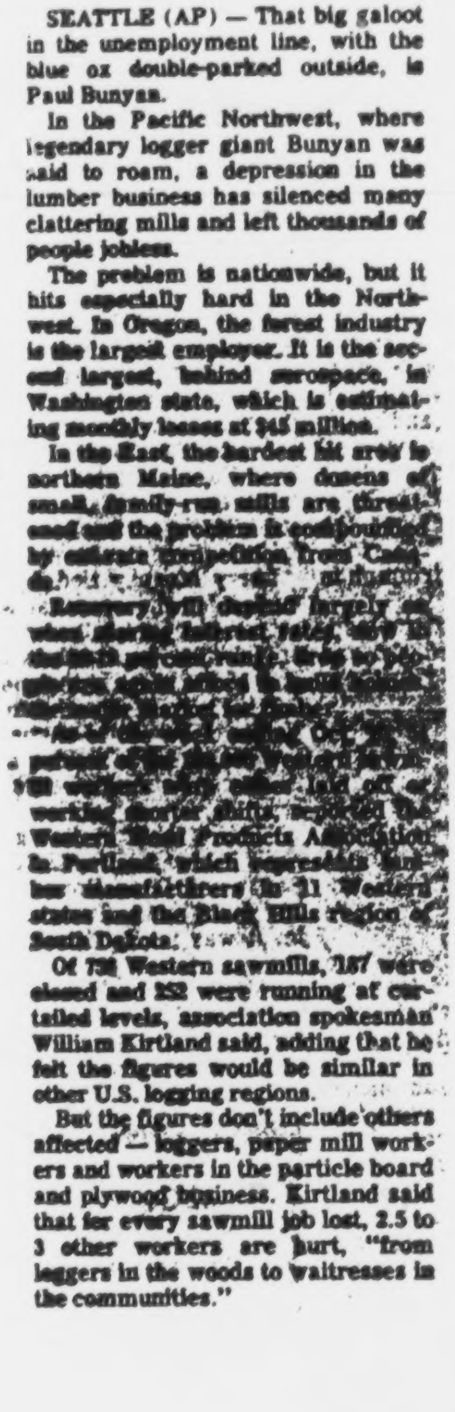
(In U.S. $ per thousand board feet, Scribner)



Prepared by: NIFM 11/81

[From Foster's Daily Democrat, Dover, N.H., October 21, 1981]

WOOD INDUSTRY IS IN MIDST OF DEPRESSION



SEATTLE (AP) — That big galoot in the unemployment line, with the blue ox double-parked outside, is Paul Bunyan.

In the Pacific Northwest, where legendary logger giant Bunyan was said to roam, a depression in the lumber business has silenced many clattering mills and left thousands of people jobless.

The problem is nationwide, but it hits especially hard in the Northwest. In Oregon, the forest industry is the largest employer. It is the second largest, behind aerospace, in Washington state, which is estimating monthly losses at $45 million.

In the East, the hardest hit area is northern Maine, where dozens of small, family-run mills are threatened and the problem is compounded by cut-rate competition from Canada. [illegible]

Recovery will depend largely on when [illegible] interest rates, [illegible]

[illegible] percent of the [illegible] workers were either laid off or working shorter shifts, reported the Western Wood Products Association in Portland, which represents lumber manufacturers in 11 Western states and the Black Hills region of South Dakota.

Of [illegible] Western sawmills, 187 were closed and 252 were running at curtailed levels, association spokesman William Kirtland said, adding that he felt the figures would be similar in other U.S. logging regions.

But the figures don't include others affected — loggers, paper mill workers and workers in the particle board and plywood business. Kirtland said that for every sawmill job lost, 2.5 to 3 other workers are hurt, "from loggers in the woods to waitresses in the communities."

Industry experts say timber has a good year when about 1.75 million housing starts are reported nationally. But only 1.2 million housing starts are expected this year and 1.4 million in 1982, Kirtland said.

"Recovery will be slow," he said. "We've been depressed for about 18 months now. We're not in a recession but a depression. There are mills that have closed, never to reopen, and more will suffer the same fate."

The Weyerhauser Co., one of the nation's biggest timber companies, cut shifts at many mills, operates some mills only three or four days a week and closed a mill in Bly, Ore., putting about 150 people out of work, said Tom Ambrose, a company spokesman.

Crown Zellerbach has closed several sawmills, including one in Omak, Wash., that employed 355 people.

The big wood industry companies in Maine's north woods, such as International Paper Co. and Great Northern Paper Co., are not suffering major layoffs because of their size and diversity, company spokesmen said. But the smaller, family-owned mills that employ up to 300 workers are laying off hundreds because they cannot sell their spruce, fir and cedar products.

Most frustrating to the owners is that the trouble comes from factors they cannot control. The biggest problem is the lack of housing construction, but another factor hurting Maine's mills lies just north of the border in Quebec and New Brunswick.

J. Paul Levesque, a life-long lumber man who owns a mill about 50 miles south of the New Brunswick border and who has had to lay off more than 100 workers — two-thirds of his work force — says the traditional Canadian competition is now a near-monopoly due to government subsidies.

Canada offers grants to cover start-up costs and low-interest loans and gives bonuses for expansions and exports, said James Barresi, executive director of the Northern Maine Regional Planning Council.

D. Ross Hodgins, an officer of a Big New Jersey lumber brokerage, said five years ago he bought half his lumber from Aroostook County mills and half from Canada. Now the Canadians get 90 percent of his business. He said Maine mills can't match Canadian prices.

Deland Lebel, a mill operator in Van Buren, Maine, said Hodgins recently canceled an order for 50 truckloads of fencing and saved $86,000 by switching to a New Brunswick supplier.

Because lumber brokers pay with U.S. money worth about 17 percent more in Canada, Canadian mill owners can offer large discounts from Maine prices and still earn a profit, Lebel said.

U.S. Customs import records show how Canadian mill owners have seized the advantage. From 1975 to 1979, the value of white cedar shingles imported through Maine jumped from $3.5 million to $6.8 million. Planed spruce lumber imports nearly tripled — from $19.4 million to $50.4 million.

Meanwhile, across the United States, lumber prices have tumbled.

The composite price of lumber, compiled from principal lumber goods and tree species, hit $300 per 1,000 board feet in August 1979. A year ago, it sank to $182 and recently languished at $178, said Bill Dean, executive editor of Random Lengths Publications, a forest products information service.

Peterson Bros. MANUFACTURING CO.
CARNEY, MICHIGAN 49812 TELEPHONE 906 639 - 2132 - 2133 - 2138
RUSTIC WOOD FENCES
PETERSON BROS. PB CARNEY, MICH.
Gene Peterson – Pres.
Bruce Peterson – Vice-Pres.
Jim Pipkorn – Sec'y-Treas.

November 3, 1981

Mr. William Stelle
Sub Committee on Government Oversight
Committee on Government Affairs
3306 Dirksen
Washington, D.C. 20510

Dear Mr. Stelle,

Thank you for calling us regarding our problem with competition from imports of Canadian wood fence and fence materials.

Enclosed is a report on imports of Canadian fence from 1974 through August, 1981.

We are located only 200 miles from the Canadian border and have some idea of what their cost of materials and labor are. From what I was able to learn last August, on a visit to Canada, their stumpage or material cost would be roughly similar to our own, and their labor would be somewhat higher. I can see no possible way for them to produce fence sections for roughly half the price that we do, unless they get some subsidy.

I have no information on the names of Canadian manufacturers. Two of the importers are brokers:

Hagar Lumber, Grand Rapids, MI
Lawrence McCoy Corp.

Your phone call, Mr. Stelle, is the first positive indication that something might be done to give domestic fence manufacturers relief from Canadians dumping on our market. Please keep us informed of the results of your investigation. Thank you.

Very truly,

Gene Peterson

Round or Split Rail, Picket, Beavertail Rail, Stockade, Zaegerzaun, & Board Fences, Rustic Lawn Furniture, Custom sawn Timbers, Garden Sheds, Items to meet your yard needs

Wood Fence pickets, palings, and rails (TSUS items 200.7520 (Unassembled) and 200.7540 (assembled)), U.S. imports From Canada, by types and by Customs districts, 1976-79 and January-March 1980

Value (dollars)

Customs district	TSUSA number	1976	1977	1978	1979	1980 January	1980 February	1980 March	1980 Jan.-Mar. Total
01 - Portland, Maine-----	200.7520	1,237,523	1,096,166	1,188,334	1,308,943	135,174	177,901	195,994	509,069
	.7540	2,844,768	2,307,484	2,395,704	3,191,611	259,416	436,523	582,686	1,278,625
02 - St. Albans, Vt.-----	200.7520	848,984	878,293	801,779	940,478	86,324	96,151	109,520	291,995
	.7540	2,792,229	2,691,599	2,302,242	2,509,375	205,050	197,347	458,057	860,454
04 - Boston, Mass.--------	200.7520	-	2,369	-	-	-	-	-	-
	.7540	-	-	-	-	-	-	-	-
06 - Bridgeport, Conn.---	200.7520	-	4,008	-	-	-	-	-	-
	.7540	-	-	-	-	-	-	-	-
07 - Ogdensburg, NY.-----	200.7520	1,432,012	1,679,558	2,234,326	1,275,127	142,396	272,593	726,212	1,141,201
	.7540	2,079,203	3,764,161	4,084,596	7,239,232	387,240	649,096	537,460	1,573,796
09 - Buffalo, NY.--------	200.7520	75,490	94,174	129,883	182,107	-	5,753	14,687	20,440
	.7540	28,194	45,745	95,756	135,537	9,518	543	47,224	57,285
20 - New Orleans, La.----	200.7520	1,705	-	-	-	-	-	-	-
	.7540	1,009	-	-	-	-	-	-	-
30 - Seattle, Wash.------	200.7520	446,883	424,903	479,818	438,032	11,644	91,261	55,008	157,913
	.7540	-	12,457	2,885	4,989	873	-	-	873
31 - Anchorage, Alaska---	200.7520	-	-	-	-	-	-	-	-
	.7540	-	5,024	-	-	-	-	-	-
33 - Great Falls, Mont.--	200.7520	148,428	240,151	194,596	165,512	3,200	6,758	9,266	19,224
	.7540	-	644	14,267	31,355	410	-	-	410
34 - Pembina, N.D.-------	200.7520	731,996	783,250	1,063,204	717,730	20,530	52,457	102,081	175,068
	.7540	386	-	-	-	-	-	-	-
36 - Duluth, Minn.-------	200.7520	279,223	697,066	713,952	-	46,578	99,958	84,965	231,501
	.7540	-	-	-	-	-	-	-	-
38 - Detroit, Mich.------	200.7520	311,205	542,577	777,152	1,725,769	79,563	114,521	348,262	542,346
	.7540	26,689	162,390	982,493	1,182,166	198,682	175,470	199,852	574,004
Totals--------------	200.7520	5,513,449	6,442,515	7,583,044	7,524,781	525,409	917,353	1,645,995	3,088,757
	.7540	7,772,478	8,989,504	9,877,943	14,311,350	1,061,189	1,458,979	1,825,279	4,345,447

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. International Trade Commission
June 1980

SHIPMENTS OF CANADIAN FENCE TO UNITED STATES,
For The Years 1974, Through August 1981..

	UNASSEMBLED	ASSEMBLED	TOTAL	$ INCREASE PRIOR YEAR	% INCREASE PRIOR YEAR
1974	4,803,723	7,039,226	11,922,949		
1975	4,866,140	7,331,812	12,197,952	275,003	2.3%
1976	5,513,449	7,772,478	13,285,927	1,087,975	8.9%
1977	6,442,515	8,989,504	15,432,019	2,146,092	16.2%
1978	7,583,044	9,877,943	17,460,987	2,028,968	13.1%
1979	7,524,781	14,311,350	21,836,131	4,375,144	25.1%
1980	9,228,939	13,613,389	22,842,328	1,006,197	4.6%
Thru Aug. 1981	8,196,700	17,131,900	25.328,600	2,486,272	10.9%

Haugen and Thoreen
ATTORNEYS AT LAW
4055 21st AVENUE WEST
SEATTLE, WASHINGTON 98199
(ADJACENT TO FISHERMEN'S TERMINAL)
PHONE (206) [illegible]

HENRY HAUGEN

HAROLD A. THOREEN
LISE KENWORTHY

October 15, 1981

William Stelle
Senate Subcommittee on Government Oversight
Senate Committee on Government
Room 3301
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Stelle:

Enclosed as per our recent conversation is some background material on fishery and timber import matters of concern to the West Coast. These are massive problems which require massive attention and I find little interest on the part of government. Representative Don Bonker is acutely aware and concerned and I recommend you touch bases with him.

Very truly yours,

HAUGEN & THOREEN

Henry Haugen

HH:ljh
Enclosures

Haugen and Thoreen
ATTORNEYS AT LAW
4098 21ST AVENUE WEST
SEATTLE, WASHINGTON 98199
(ADJACENT TO FISHERMEN'S TERMINAL)

PHONE (206) 285-0303

HENRY HAUGEN

HAROLD A. THOREEN
LISE KENWORTHY

BACKGROUND PAPER - MAY 16, 1981

IMPORT RELIEF FOR DOMESTIC RED CEDAR SHINGLE & SHAKE INDUSTRY

1. THE DOMESTIC INDUSTRY:

There are approximately 500 mills (many of which are very small) located in Western Washington, Oregon and Idaho which make red cedar shakes and shingles for the housing industry. Annual sales are approximately $75 million. There is no single trade association for the domestic industry, most participants being fiercely independent. There is a very good trade association (Red Cedar Shingle and Handsplit Shake Bureau, Bellevue, Washington), but it represents both Canadian and domestic producers.

2. THE RESOURCE

The State of Washington controls the majority of the cedar resource and reports that it is in good shape and that second growth cedar is a better raw material. The U. S. Forest Service, another major owner, doesn't seem to be so confident. There is also considerable resource on private lands. The Canadian resource is all located on public lands in British Columbia and though there is lots of it, it may not be as desirable as our resource.

3. IMPORTS

Some 98% of the Canadian production is exported to the U. S. Imports have grown substantially and amount to about $150 million per year and supplies 65% of the U. S. market. No duty is imposed on imports by the United States.

4. MARKET CONDITIONS

The housing industry slow-down is not felt as directly as one would expect, probably because shakes go on more expensive homes which continue to be built. California, Texas, and Washington are the three major users. Prices have deteriorated, but not to the extent one sees in other commodity markets. However, the source of supply has shifted distinctly in favor of Canada and at the expense of the domestic industry as the market price has deteriorated to the point where the domestic industry is about

$44.00 per square and for Canada about $38.00 - $40.00 per square with the current price level now at $40.00 per square.

5. INJURY

Commencing in the fall of 1980, the deteriorating economics caught up with the industry and the mills have been forced to shut down. Unemployment is high - 15% in affected counties - and approximately 50 mills have been certified as trade impacted under the Trade Adjustment Assistance Program with documented shifts of sales to customers from domestic to imported product. There has also been a noticeable increase in poaching from public lands as the workers try to survive.

6. CAUSE

The major cost of manufacturing is the raw material: cedar logs. Under the state and federal system, the United States manufacturer must bid stumpage at public auctions for the timber usually two to three years in advance of actual use. Since 1972, those prices have escalated sharply, probably influenced by our log export policy. Under present law, there is really no way the bidder can avoid payment of the bid price no matter how sympathetic the agencies might be.

In British Columbia, an entirely different approach is taken by the Province which owns 95% of the timber resource. The British Columbia Forest Service sells timber rights based on an appraisal system and not by bid. The appraisal is based on the end market price and can be changed as often as every thirty (30) days. The policy is designed to protect "established operators", provide an allowance for profit, foster the growth of the industry, and create stable employment. The end result has been very low stumpage prices to the point of being only 10% of United States stumpage prices. The policy has been subject to studies, reviews and criticism (is the public getting a fair return?), but it has not changed.

There are also complaints about preferential shipping rates given Canadian product shipped to the East Coast by Canadian Railways, but this would seem minor in comparison to the stumpage differential.

It is believed that productivity of U. S. workers is higher than of their Canadian counterparts and that wage scales are comparable, or perhaps less in the United States.

7. REMEDY

No observer of the domestic industry expects it to survive unless the Canadian imports are brought under control quickly. This can be accomplished by equalizing the stumpage costs or by placing a quota on imports based on the number of housing starts. Given the Canadian trade policies, a remedy must be relatively permanent.

TOTAL PRODUCTION - RED CEDAR SHAKES AND SHINGLES

	1978	1979	1980
	6,554,477 squares	5,966,911 squares	4,970,379 squares
Canadian Imports	3,309,736 squares	3,497,658 squares	3,263,576 squares
U.S. Production	3,244,741 squares	2,469,253 squares	1,706,803 squares
Canadian Share	50.5%	58.7%	65.7%
U.S. Share	49.5%	41.3%	34.3%

SOURCE:

(1) U.S. Trade Administration Data

(2) Red Cedar Shingle and Handsplit Shake Bureau Data (Note: Needs Verification).

MARKET SHARES

Preliminary Data, Red Cedar Shingle and Shake Bureau
Representing 90% to 95% of Total Production of USA and CANADA

	SHINGLE		Shake	
YEAR	USA	CAN	USA	CAN
1976	44%	56%	76%	24%
1977	37%	63%	69%	31%
1978	35%	65%	65%	35%
1979	30%	70%	57%	43%
1980	30%	70%	45%	55%
1981	Projected Market Shares - U.S. - 25% CANADA - 75%			

State of Washington - Relevant Employment Data - March 1981

PLACE[1]	LABOR FORCE	PERCENTAGE[2] LUMBER & WOOD	UNEMPLOYMENT[3]	RATE
Washington State	1,929,000	2.8%	173,300	9.0%
Clallam County	20,054	15.1%	3,800	17.6%
Mason County	9,899	17.5%	1,150	10.4%
Grays Harbor Co.	30,506	17.9%	4,990	14.9%
Pacific County	7,588	14.9%	1,190	16.6%

NOTES

1 The four counties listed are those most dependent upon the timber industry.

2 Lumber and Wood category does not include paper and pulp. Percentages devoted to Lumber and Wood categories are from U.S. Department of Commerce, Bureau of Economic Analysis, April 1981.

3 Unemployment date is for March 1981 (Preliminary), as provided by Washington State Employment Security Department.

Haugen and Thoreen
ATTORNEYS AT LAW
4098 21ST AVENUE WEST
SEATTLE, WASHINGTON 98199
(ADJACENT TO FISHERMEN'S TERMINAL)
PHONE (206) 285-0393

HENRY HAUGEN

HAROLD A. THOREEN
LISE KENWORTHY

May 1, 1981

WOOD SHINGLES & SHAKES

NATION-WIDE IMPORTS

	Red Cedar		Other	
YEAR	QUANTITY	VALUE	QUANTITY	VALUE
1977	2,903,936	$122,173,759	304,243	$ 7,847,600
1978	3,309,736	$151,689,742	409,590	$10,273,289
1979	3,497,658	$154,557,903	436,135	$ 9,965,721
1980	3,263,576	$139,675,969	556,482	$10,025,871
Through Feb. 1981	529,376	$ 22,572,378	58,903	$ 914,554

UNIT VALUES

1977	$42.07/Sq.	$25.79/Sq.
1978	$45.83/Sq.	$25.08/Sq.
1979	$44.18/Sq.	$22.85/Sq.
1980	$42.79/Sq.	$18.01/Sq.
1981	$42.63/Sq.	$15.52/Sq.

Shake and Shingle Mills, State of Washington

1968	1970	1972	1974	1976	1978
158	172	176	205	252	337

SOURCE: Washington Department of Natural Resources.

NOTES: Trends and Analysis

From 1976 to 1978:

(1) Number of mills increased 34%, but capacity increase was only 6.5%, i.e., lots of new small mills.

(2) Operating days averaged 219 for 1978, an increase of 19% over 1976.

(3) Grays Harbor and Clallam County account for approximately 50% of the mills and capacity in both 1976 and 1978.

(4) Log consumption by shake and shingle sector actually declined between 1976 and 1978.

Housing Starts - Single Family (In Millions)

1973	1974	1975	1976	1977	1978	1979	1980
1.1	.89	.89	1.2	1.5	1.4	1.2	.85 (estimated)

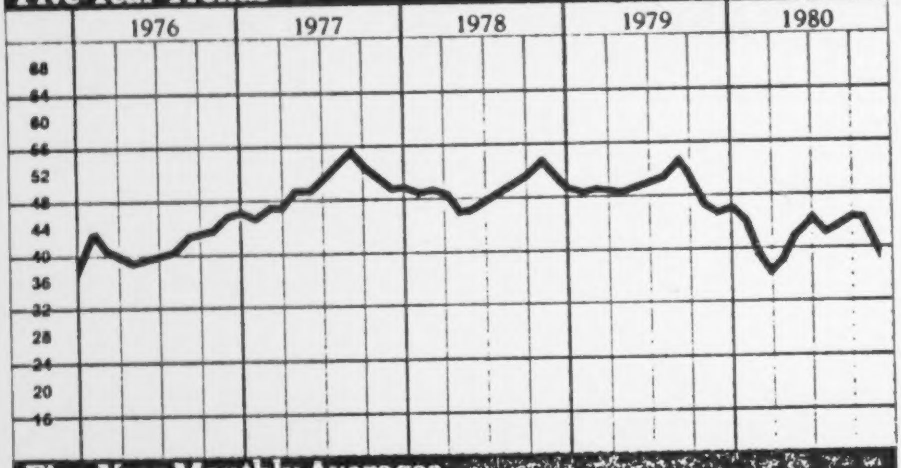
Red Cedar, Dry
1/2x24", H/S&R/S Shakes

(Prices Net fob Mill)

Monthly Averages of Reported Prices

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1970	15.38	15.25	15.63	15.88	16.00	15.88	15.80	16.25	16.65	16.31	15.56	15.15
1971	16.13	19.56	21.05	20.19	19.19	20.35	22.50	21.81	20.75	20.63	21.06	21.44
1972	21.56	22.56	23.80	23.75	23.05	24.19	26.38	27.80	28.81	31.69	34.40	35.00
1973	35.80	36.75	37.13	36.13	32.55	28.75	26.75	26.25	26.69	26.10	25.50	26.25
1974	26.95	26.50	26.69	27.56	27.25	26.63	26.95	27.56	28.44	28.50	28.19	26.50
1975	25.65	25.50	25.13	26.25	30.06	29.37	31.40	32.75	35.25	37.90	35.37	36.05
1976	37.50	42.13	40.10	39.38	38.19	38.35	39.99	40.56	42.30	42.69	43.75	45.80
1977	46.19	45.19	46.75	46.56	49.81	49.55	51.93	53.10	54.81	52.19	51.95	49.87
1978	50.06	48.88	49.10	48.75	46.00	46.25	48.00	49.10	50.56	51.44	53.55	51.50
1979	49.55	48.38	49.75	49.19	49.00	49.88	50.13	50.95	53.38	51.60	47.06	45.50
1980	46.30	44.56	39.87	36.90	38.75	44.12	45.50	43.56	43.75	44.50	44.88	40.00

Five-Year Trends



Five-Year Monthly Averages

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1972-76	29.49	30.68	30.57	30.61	30.22	29.46	30.29	30.98	32.29	33.38	33.44	33.87
1973-77	34.42	35.21	35.16	35.17	35.57	34.53	35.40	36.04	37.50	37.48	36.95	36.89
1974-78	37.27	37.64	37.55	37.70	38.26	38.03	39.65	40.61	42.27	42.54	42.56	41.94
1975-79	41.79	42.02	42.17	42.03	42.60	42.68	43.09	45.29	47.26	47.16	46.34	45.79
1976-80	45.92	45.82	45.11	44.16	44.35	45.63	47.11	47.45	48.96	48.48	48.24	46.53

JOHN SPELLMAN
Governor

M. KEITH ELLIS
Director

STATE OF WASHINGTON
DEPARTMENT OF AGRICULTURE
406 General Administration Bldg. AX-41 • Olympia, Washington 98504 • (206) 753-5063

December 1, 1981

DEC 7 8

Mr. William Stell
Senate Subcommittee on Oversight of Government
Management
Committee on Government Affairs
3306 Dirkson Senate Office Building
Washington, D.C.

Dear Mr. Stell:

We were very pleased to hear of your interest in the problem of subsidized agricultural imports to the United States. Our main concern is with the British Columbia raspberry industry and also with blueberry imports.

Enclosed for your information are two items based on the conditions in 1980. One is a letter to Senator Slade Gorton dated January 29, 1981, and the other is a presentation to a Trade Policy Staff Committee. These items generally describe the problem.

Our producers will be contacting their congressmen in this regard. They may also contact you.

This year, with a short crop and better prices, some of these problems may have subsided.

Sincerely,

AGRICULTURAL DEVELOPMENT DIVISION

Roger L. Roberts

Roger L. Roberts
Special Programs Administrator

RLR:dt

Enclosures

WASHINGTON RASPBERRY
COMMISSION
P.O. Box 1063 Puyallup, WA 98371

January 29, 1981

Hon. Senator Slade Gorton
c/o United States Senate
Washington, D.C. 20510

Dear Senator Gorton:

On December 18, 1980, a representative of the Washington Raspberry Commission gave an oral presentation to a Trade Policy Staff Committee hearing in Seattle, Washington. A written report was also presented at this hearing. A copy of this report is enclosed for your information.

The Washington raspberry growers are seeking relief from the impact of the British Columbia raspberry industry on the Washington market. The raspberry industry in Washington was drastically depressed in 1980 because of the importation of approximately six million pounds of berries from British Columbia. This resulted in a return of 30 cents per pound for the Washington growers, on a crop which costs approximately 49 cents per pound to produce.

As detailed in the enclosed report, the British Columbia raspberry growers receive assistance as a result of their zoning restrictions, from government promotion and research, and from subsidies to the growers. By comparison, the Washington growers receive no financial support from federal or state agencies. British Columbia is currently in a phase of increasing production, and the Washington market will continue to be strongly influenced by this increase. The Washington raspberry growers find it increasingly difficult to compete in the market.

Washington state is the largest producer of raspberries in the United States. Approximately 245 commercial growers throughout western Washington raise raspberries on small parcels of land. Washington growers currently produce about twelve million pounds of raspberries annually. The market is very sensitive, and the addition of only one to two million pounds historically results in drastic price fluctuations.

The raspberry industry is limited by soil requirements. Most acceptable areas are now planted in raspberries or are being developed for non-agricultural uses. Because of the size of the raspberry industry, the limitations on growth, and the time required to bring raspberries into full production, it is imperative that Washington growers be encouraged to remain in the business. It is critical that these small growers are not forced to divert their land from the production of raspberries. Many of the prime growing areas in Washington are located in populated areas of the state, and this land is valuable for further non-agricultural development.

The Washington Raspberry Commission recommends that the importation of raspberries from British Columbia be limited to five million pounds annually. These reasonable limitations would help compensate for the expected reduction in U.S. exports of berries in 1981, and would help to maintain a fair rate of return. This limitation could be removed one year after all government subsidy of the British Columbia raspberry industry ceases.

The Commission urges you to take action to provide relief for Washington raspberry growers. This prime agricultural land must continue to be set aside for production of raspberry crops.

Sincerely,

Joe Nishimoto, Chairman
Washington Raspberry Commission

JN:mp

Enclosure

TO: Harvey E. Bale, Jr., Acting Chairman
Trade Policy Staff Committee

FROM: Melvin E. Moon, Representative
Washington Raspberry Commission

DATE: December 18, 1980

RE: Trade Agreement Recommendations, Raspberry Industry

Historical Background

The state of Washington produces nearly 60 percent of the raspberries grown in the United States. Oregon state is the next largest producer, with several other states supplying small amounts. The acreage planted in raspberries in Washington has remained fairly constant over the past ten years. In 1979, approximately 2600 acres were planted in raspberries in Washington. It is anticipated that good returns from the 1978 and 1979 crops will bring the acreage up to 2900 acres by 1981.

The other major area in North America for production of raspberries is British Columbia, Canada. In 1978, British Columbia had about 2600 acres planted in raspberries. By 1980, this had increased to approximately 4900 acres. Their 1980 crop totalled about 16 million pounds. Six million pounds of this crop was exported into the United States in fresh and frozen form in 1980.

In contrast, Washington state exports slightly over one million pounds of fresh and frozen raspberries to Canada each year. Washington also supplies raspberries to markets in Japan, Australia and Singapore. Total export to these markets is about 730,000 pounds annually.

In recent years, there has been no duty imposed on fresh raspberries crossing the border into Canada during the primary harvest season of July and August. During the remainder of the year, the United States imposes a duty of 0.3 cent per pound on fresh raspberries. The duty imposed on frozen berries is presently 11.6%, down from a previous high of 14%. Canada imposes a 10% duty on frozen raspberries.

Processors in British Columbia wash, sort, and package raspberries in barrels and drums. These are trucked into the United States, where they are frozen and sold. These berries are presently treated as fresh, rather than processed, and no duty is imposed on them.

Washington growers met with Senator Magnuson and Congressman Swift during 1980 to ask for an interpretation and clarification of the term "processed". In November, 1980, the growers were notified by the Treasury Department, U.S. Customs Service, that the berries trucked in from British Columbia can not be classified as "processed". As a result of this interpretation, no duty is imposed on these raspberries from British Columbia.

British Columbia Raspberry Production

In 1974, British Columbia passed the Agriculture Land Reserve Act. This act zoned agricultural land, providing for classification of parcels. Prime agricultural land is given a high rating, and it is very difficult to obtain a release of this land for non-agricultural use. As a result of this zoning, British Columbia farmers have been given an impetus to plant crops suitable to the Pacific Northwest climate which will provide a good return per acre.

Representatives of the British Columbia Ministry of Agriculture and the British Columbia Raspberry Association informed Washington Raspberry Commission representatives that their government is providing support for their raspberry producers. The British Columbia raspberry industry is engaged in new-product research and national promotion as a result of this sup-

Growers supplying raspberries for a juice drink are receiving subsidies to compensate for the lower price which they would receive under normal market conditions. The British Columbia government is providing assistance in the development of "Instant Quick Freeze" plants for processing of raspberries. The government also subsidizes producers exporting raspberries.

Washington State Raspberry Production

The raspberry industry in Washington consists of approximately 245 commercial growers. Sixty five percent of these growers produce under 50,000 pounds of raspberries annually. In 1976, the Washington growers organized a Raspberry Commission. This commission receives financial support from a one-fourth cent per pound assessment on raspberries. The funds available are then used to promote the raspberry industry and to provide for production research. The commission is presently attempting to increase this assessment to one-half cent per pound. The Washington State Extension Service has provided services in production research to the commission at a minimum cost. The Washington raspberry industry has not received financial support from either the state or federal government.

Until recently, all raspberries in Washington were harvested by hand. This factor limited farm size and prevented an increase in production. The development of an acceptable, moderately priced harvester has now opened some areas for raspberry production which were previously not available due to a shortage of workers.

Soil requirements still limit the raspberry industry. Raspberries require well-drained loam, or sandy loam, soil, approximately two to four feet in depth. Most acceptable areas in the state are already planted in raspberries, or are being developed for non-agricultural use. Many raspberry production areas in Washington consist of small parcels of land located in populated areas.

1980 Raspberry Harvest Data

Washington state production of raspberries is currently about 12 million pounds. This small production results in a sensitive market, and drastic price decreases may result from the addition of one to two million pounds of berries over this amount.

In 1980, buyers anticipated increased production from the areas of Washington, Oregon and British Columbia. During 1980 price negotiations, Sabolay Processing, Ltd. of Abbotsford, British Columbia, offered one million pounds of frozen raspberries for sale in Washington state at a price of 38 cents per pound. This price reflected a return to the growers of about 23 cents per pound.

Predicted production increases did not materialize in 1980, largely due to a wet harvest season which resulted in soft fruit and fruit rot. Many fields were not harvested due to this problem. Ash from Mt. St. Helens made fruit from the southern part of Washington state unfit for consumption.

Although Washington raspberry production was below normal for the 1980 harvest, the 38 cents per pound sale by Sabolay Processing, Ltd. resulted in a severe impact on the Washington market. Washington raspberry producers received a price of 30 cents per pound on the market in 1980.

Statistical Data

The Washington State Extension Service conducted an analysis of raspberry production costs in Washington in 1980. This study determined production costs to be 49 cents per pound, based on a 4 ton per acre return (see table 1). Four ton per acre is the return available in full production years when plants are 3-10 years old.

The cost of raspberry production in 1979 in British Columbia was set at 48 cents per pound by the manager of the British Columbia Raspberry Association. These figures show production costs in British Columbia to be equivalent to costs in Washington.

Production statistics for the raspberry industry were compiled by the Oregon State University Extension Service, and published in their 1980 bulletin. These statistics appear in table 2. Available information is given for the years 1975 through 1979. Estimated figures are shown for 1980 production.

Position of the Washington Raspberry Commission

Raspberry growers in Washington are presently attempting to compete in an inequitable market. Canadian government subsidy of new-product research, promotion, and the Farm Insurance Program places the Washington grower at a severe disadvantage in the market place. The British Columbia Land Reserve Act provides for retention of prime land for agricultural use, and contributes to the problems which the Washington producer is experiencing.

Poor returns for Washington raspberry growers will soon force the small, independent producers out of the industry. Unless some relief is provided soon, Washington growers will begin removing land from raspberry production. Much of the prime raspberry growing land in Washington state would be lost to development and industrial use if growers are not able to realize adequate returns on their investment. The critical location of prime growing areas in populated and developing areas of the state, suggests that this land is valuable for further development in non-agricultural uses.

The commission urges that immediate relief be provided to the Washington raspberry producers so that this prime land will continue to be set aside for raspberry crops. Prime production years for raspberries are when the plants are from 3 to 10 years of age. If the Washington growers take land from production of this crop, it will take several years to restore full production under ideal conditions.

Recommendations

1. It is recommended that importation of raspberries from British Columbia be limited to 5 million pounds annually. This limitation would help compensate for the expected reduction in United States exports of raspberries to Canada in 1981. The commission is not requesting that all raspberry imports from British Columbia be stopped, but only that reasonable limits be set.

2. It is recommended that this limitation of 5 million pounds annually on raspberry imports from British Columbia be removed one year after all government subsidy of the British Columbia raspberry industry has ceased.

TABLE 1

Red Raspberry Production Costs
Full Production Years - 4 Ton Return
Summary of Receipts, Costs and Profitability Per Acre

		Quantity	Value or Cost
	Gross Receipts From Production		
	Raspberries	4.0 Tons	4800
1.	Total Receipts		4800
	Less: Total Variable Cost		2580
2.	Returns Over Variable Cost		2220
	Less: Machinery Fixed Cost		250
	Amortized Establishment Costs		970
	Real Estate Taxes		100
3.	Returns to Land and Management		900
	Less: Returns to Management (0.050 of Returns)		240
4.	Net Returns to Land Investment		660
5.	Rate of Return on Current Market Value of Land (4000. per acre)		0.165

Cost Per Pound Based on Variable Costs	$0.32
Cost Per Pound Based on Variable Costs and Fixed Costs	$0.49
Cost Per Pound Based on Variable Costs and Fixed Costs and Management	$0.51
Cost Per Pound Based on Variable Costs and Fixed Costs and Management and Land Opportunity Cost @ 10%	$0.57

Compiled by Washington State Extension Service, August 1980

Western Washington Data from 10 Acre Enterprise

TABLE 2

Production Statistics
Red Raspberry Industry

Item and Area	Unit	1975	1976	1977	1978	1979	1980 Estimate
Acreage Harvested	Acres						
Oregon		2100	2000	1900	1900	2000	2400
Washington		3000	2900	2800	2600	2600	3100
Two State Total . .		5100	4900	4700	4500	4600	5500
British Columbia . .						4000	4900
California							500
Yield Per Acre	Pounds						
Oregon		4860	4500	5530	5050	5000	5000
Washington		5500	5080	5230	5100	4900	5000
Two State Ave. Yield		5235	4853	5350	5080	4943	5000
British Columbia . .						7000	7000
Total Production	1000 Pounds						
Oregon		10200	9000	10500	9600	10000	
Washington		17680	15012	14980	13460	13013	
Two State Total . .		27880	24012	25480	23060	23013	
British Columbia . .						[illegible]	[illegible]
Utilization of Sales	1000 Pounds						
Oregon							
Fresh		700	800	700	400	700	
Processed		9500	8200	9800	9200	9300	
Washington							
Fresh		1100	1312	1615	1017	1844	
Processed		15400	13420	13029	12243	10896	
British Columbia							
Fresh						1500	1900
Processed						13500	17100
Farm Price	Cents/ Pound						
Oregon							
All		23.7	31.8	51.0	74.6	67.2	
Processed		22.0	30.8	50.4	74.8	67.7	25.0
Washington							
All		24.9	29.6	44.6	70.4	69.0	
Processed		22.8	28.3	44.1	70.7	67.9	30.0
British Columbia							
Processed				54.0	84.0	87.6	30.- 35.

Compiled by Oregon State University Extension Service
Commodity Data Sheet of Red Raspberries, 1980 Bulletin

VICTORIA

BRITISH COLUMBIA RASPBERRY PRODUCERS' INCOME ASSURANCE PROGRAM

Policy Guidelines

1. The program will conform to the General Agreement on Income Assurance and be subject to the agreements reached from time to time between the British Columbia Federation of Agriculture and the Minister of Agriculture.

2. To be eligible, a producer must be a member in good standing with the British Columbia Raspberry Growers' Association for the duration of the program. For 1976 only, producers who were not members of the Association will be eligible providing they become and remain members of the Association in 1977 and satisfy all membership qualifications.

3. The program will be jointly administered by the British Columbia Ministry of Agriculture and the British Columbia Raspberry Growers' Association. The British Columbia Raspberry Growers' Association will verify membership in good standing, individual qualifying production and the average market return. In addition, the British Columbia Raspberry Growers' Association shall be responsible for collection and payment to the Minister of Finance of producer premiums and surcharge due when no indemnities are payable.

4. Basic costs will be determined annually by agreement between the British Columbia Federation of Agriculture and the British Columbia Ministry of Agriculture.

5. The benchmark basic costs will be determined on the basis of a 25-acre farm with 20 acres of raspberry production.

6. For purposes of the program, eligible production will be raspberries delivered to processing agencies recognized by the British Columbia Raspberry Growers' Association. Fresh and roadside sales are not eligible for the program.

7. Productivity in the model farm will be 4.5 tons of raspberries to the acre for 1976. For 1977 - 1980 the productivity will be 4.8 tons/acre.

8. In 1976, the maximum eligible production qualifying for indemnity and subject to premium will be 180,000 pounds. In 1977 - 1980, the maximum eligible production will be 192,000 pounds.

9. For purposes of this program, an individual producer's maximum eligible production will be the higher of his 1975 or 1976 production delivered to a recognized processing agency, subject to the overall existing maximums of the program. It is also understood that latitude exists for producers who are in extenuating circumstances and whose productions can be documented to be lower than they are normally capable of producing in those two years.

.... 2

10. To be eligible, a producer must have operated a raspberry farm that has delivered 7,000 pounds of raspberries to a recognized processing agency in 1975 or 1976.

11. For purposes of the program, market returns will be the average price received by growers from all of the recognized processing agencies for raspberries delivered to the agencies, except that if the weighted average return for processing raspberries in Washington, Oregon and British Columbia is higher than the British Columbia return, then the British Columbia Minister of Agriculture reserves the right to designate a market return for purposes of the program after consultation with the British Columbia Federation of Agriculture. For purposes of calculating market returns, monies received from federal support programs are deemed to be additional market returns.

12. Recognized processing agencies will be determined and listed in the policy statement annually by the Minister of Agriculture and the British Columbia Federation of Agriculture. Processing agencies will be responsible for deduction of producer premiums and surcharge monies upon instruction of the British Columbia Raspberry Growers' Association by August 1 of each year.

13. Indemnities will be calculated on the basis of 75% of the deficit between the basic cost and the weighted average market return. The maximum indemnity will be determined by the formula $\frac{.75 \times \text{basic cost}}{1.75}$.

14. Indemnities and premiums will be applicable on a crop year basis.

15. The program is in effect for production grown subsequent to January 1, 1976 to December 31, 1980.

16. The producer premium for 1976 will be 1.5¢ per pound.

17. Recognized processing agencies for 1976 are as follows:-

Abbotsford Growers Co-op. Union	31825 Marshall Rd., Abbotsford
Berryland Canning Co. Ltd.	P.O. Box 37, Maple Ridge
Brookswood Foods Ltd.	78 Columbia St., R.R. 5, Abbotsford
Joseph S. Chow Ltd.	6111 Oak St., Vancouver
East Chilliwack Growers Co-op. Union	Box 371, 46255 Chilliwack Central Rd., Chilliwack
Frij-Pak Berry Products Ltd.	3834 - 272nd St., Aldergrove
Empress Foods Ltd.	31122 South Fraserway, Abbotsford
Fraser Valley Frosted Foods Ltd.	4551 Yale Rd. W., Box 384, Chilliwack
M.A. Berry Association	Downes Rd., Bradner
Pioneer Portion Pak	1725 MacDonald St., Burnaby
Saboley Processors Ltd.	496 Townline Rd., R.R. 1, Abbotsford
Snowcrest Packers Ltd.	1925 Riverside Rd., Abbotsford
Ste. Michelle Wines	3948 Quadra St., Victoria
Westvale Foods Ltd.	33920 Lougheed Hwy., Box 3640, Mission
York Farms Div. of Canada Packers Ltd.	Box 2000, Sardis

May 12, 1977.

BRITISH COLUMBIA

2381

APPROVED AND ORDERED SEP.-7.1979

Lieutenant-Governor

EXECUTIVE COUNCIL CHAMBERS, VICTORIA SEP.-6.1979

On the recommendation of the undersigned, the Lieutenant-Governor, by and with the advice and consent of the Executive Council, orders that the following regulation be made:

Farm Income Program Regulation

Interpretation

1. In this regulation

"Act"
means the Farm Income Assurance Act;

"administration fund"
means the administration fund established under section 2 (3);

"basic cost"
means the cost that the minister, in consultation with the federation, deems to be the cost incurred by farmers in producing a commodity, and is described further in section 3;

"benefit"
means the benefit for which a farmer is eligible under this regulation;

"commodity"
means an agricultural product specified in the guidelines to this regulation;

"contribution"
means the sum of money payable by or on behalf of a farmer to the income fund in accordance with this regulation, and is described further in section 3;

"eligible sales"
means the lesser of
(a) the amount of a commodity sold by a farmer in a year in accordance with these regulations, or
(b) that farmer's participation ceiling for that commodity;

"farmer"
means a person who produces a commodity and meets the requirements of this regulation;

"federation"
means the British Columbia Federation of Agriculture;

"guidelines"
means Schedule B1, B2, B3, B4 or any schedule later enacted as an addition to this regulation as the guidelines for a commodity, and in relation to any particular commodity means the guidelines that are expressed to apply to that commodity;

. . .2

FILED
SEP 10 1979
BC REG No. 394/79

(This part is for administrative purposes and is not part of the Order.)

Authority under which Order is made:
Act and section Farm Income Assurance Act, section 2
Other (specify)
Statutory authority checked by H. M. Thornton
([illegible] of Legal Officer)

"income fund"
means the income fund established under section 2 (3) for a plan;

"market return"
means the price that the minister deems is received by farmers for a commodity sold by them and is described further in section 3;

"minister"
means the Minister of Agriculture;

"participation ceiling"
means the maximum quantity of a commodity for which a benefit may be paid to a farmer and is described further in the guidelines and in section 3;

"plan"
means a farm income plan established for farmers under section 2 of this regulation, and is described further in section 3;

"surcharge"
means the money payable by or on behalf of a farmer to the administration fund;

"unit"
means, in relation to a commodity, the unit specified in the guidelines as the unit used for measuring that commodity;

Plans established

2. (1) Farm income plans are hereby established for farmers who produce a commodity specified in the guidelines.

(2) The minister shall administer the plans.

(3) Subject to the Act and this regulation, the Minister of Finance shall establish and continue to maintain an income fund and an administration fund for the purpose of carrying out and administering the plans.

(4) The British Columbia Federation of Agriculture is established as an agent for the purposes of the plans, with the duties and powers given to it by this regulation, and the guidelines.

General

3. (1) This section describes the plans in general terms and shall be read subject to the exceptions, qualifications, limitations and details set out in the other sections of this regulation and in the schedules and guidelines to it.

(2) The purpose of the plans is to pay a benefit to a farmer in respect of a commodity that he sells, in years when the market return is less than the basic cost.

(3) The basic cost and market return referred to in subsection (2) are not the actual basic cost and market return to the individual farmer, but are calculated by the minister using a system known as a plan model, and a formula based on sales of the commodity by farmers in the Province.

(4) No benefit is payable to a farmer in respect of his sales of a quantity of his commodity to the extent that it exceeds the lesser of his participation ceiling or the amount of his sales of his commodity in a year in accordance with these regulations.

(5) The participation ceiling referred to in subsection (4) will have 3 levels for different farmers:

(a) level 1, the quantity of which is stated in the guidelines;
(b) level 2, which will be level 1 multiplied by 1.75, and
(c) level 3, which will be level 1 multiplied by 2.25,

and the level at which a farmer participates will depend on the number of persons conducting the farming operation and their relationships to each other. Further details of this are set out in Schedule A, which is part of this regulation.

. . .3

(6) The amount of a benefit will be based on a rate of benefit per unit of the commodity, and the rate will, subject to subsection (7) be calculated by deducting from the basic cost of producing that commodity, the sum of the market return on that unit and the contribution payable as insurance premium on that unit, for example:

basic production cost per pound		12¢
market return per pound	10.0¢	
insurance premium	0.5	
	10.5¢	10.5¢
rate of benefit		1.5¢/lb

(7) The rate of benefit shall not exceed the basic cost, multiplied by 0.57, for example:

Basic production cost per pound 11¢
11¢ x 0.57 = 6.27¢
maximum rate of benefit per pound is 6.27¢

(8) The amount of a benefit will be ascertained by multi rate of benefit by the farmer's eligible sales, for example:

Farmer's participation ceiling for apples (farmer participating at level 1)	1 262 500 lbs
Farmer's actual sales	1 500 000 lbs
Farmer's eligible sales	1 262 500 lbs
Rate of benefit	1.2¢/lb

Benefit payable 1 262 500 x 1.2¢ = $15 150

(9) Where the calculation under subsection (8) would result in a benefit being payable that exceeds

(a) in the case of a farmer participating at level 1, $20 000,
(b) in the case of a farmer participating at level 2, $35 000, or
(c) in the case of a farmer participating at level 3, $45 000,

the benefit, to the extent that it would exceed the respective amounts of $20 000, $35 000 or $45 000 shall be reduced by 30%, for example:

Farmer's participation ceiling for apples (farmer participating at level 2)	2 209 375 lb
Farmer's actual sales	1 900 000 l
Farmer's eligible sales	1 900 000 lbs

Rate of benefit 3¢/lb
1 900 000 x 3¢ = $57 000

Pay in full	$35 000	$35 000
70% of balance of $22 000	=	$15 400
Total benefit payable		$50 400

(10) The plans will be financed

(a) by yearly contributions of money to the income fund from farmers, in amounts determined by the minister, using a formula that takes into account
  (i) the quantity of his commodity that a farmer sells in the year, and
  (ii) a 5 year running average of market returns,
(b) by yearly payments of money to the administration fund by farmers, called surcharges, in amounts determined by the federation, and
(c) by payments into the income fund from money available for that purpose under an Act, in amounts that either
  (i) equal in any one year, the contributions by farmers, or
  (ii) exceed, where in any one year the burden on the plan requires it, the contributions by farmers.

(11) Money required for the purposes of a plan will come from 2 funds, called the income fund and the administration fund.

(12) The income fund will consist of the contributions from farmers and payments from the government referred to in subsection (10) (a) and (c), and will be the source from which payments are made to farmers under this regulation.

(13) The administration fund will consist of surcharges paid by farmers referred to in subsection (10) (b) and will be used to pay the other expenses of administering the plans.

(14) A farmer may not participate in a plan unless he meets the criteria for eligibility set out in Schedule A, which is part of this regulation, and he will participate at the level indicated in Schedule A.

(15) Participation by a farmer in a plan is subject to the provisions, applicable in respect of the commodity he produces, set out in the guidelines for the plan respecting that commodity, which are a part of this regulation.

(16) All benefits payable under a plan shall be paid out of the income fund.

(17) Where a payment is made to a farmer under the Agricultural Stabilization Act, (Canada), the minister shall thereafter deduct from the net benefits payable to the farmer under a plan an amount equal to one half the amount paid to the farmer by the government of Canada.

und -
ions

4. (1) A farmer participating in a farm income plan shall tribute money each year to the income fund at a rate determined y the minister under subsection (2) or (3), as the case may be, multiplied by the number of units of the commodity sold by him in that year.

(2) Subject to subsection (3), the rate of the contribution per unit of a commodity sold during a year shall be equal to one half of the total benefits on that commodity under the plan if the plan had been in place during the preceding 5 years divided by the total number of units on which those benefits were paid.

(3) The minister may, after consultation with the federation require farmers to pay contributions based on different criteria or at a greater or lesser rate than specified in subsection (2).

Administration fund -
surcharge

5. (1) This section applies to the maintenance of the nistration fund and the terms and conditions on which money shall be paid out of it.

(2) The Minister of Finance or his designate shall pay all money from the administration fund to the federation for services in establishing and administering farm income plans.

(3) The Minister of Finance shall pay into the administration fund all surcharges collected and remitted to him.

Applications

6. (1) The minister may approve a farmer's application for participation in a farm income plan.

(2) A farmer whose application to participate in a farm income plan is approved by the minister shall not be eligible for the benefits provided by it unless he pays or undertakes to pay

- (a) the contributions to the income fund, as specified in this regulation, and
- (b) surcharges to the administration fund in an amount set by the federation.

Eligibility

7. (1) A farmer's eligibility to participate in and receive benefits under a farm income plan is subject to the provisions of the appropriate guidelines, this section and Schedule A.

(2) A farmer who wishes to participate in a farm income plan must apply to do so in a form set out in Schedule C.

(3) To be eligible for participation in a farm income plan, an applicant must

. . .5

(a) be a member in good standing of a farmer organization designated for that purpose by the federation, and
(b) meet the eligibility criteria set out in Schedule A.

(4) Where during a year a farmer applies to participate in a farm income plan after the closing date for applications as set out in the guidelines, the minister may accept his application but the maximum amount of benefits that the applicant is eligible to obtain and the contributions that he is required to pay under a farm income plan are reduced as set out in the guidelines.

(5) A farmer who is deemed by the minister to have withdrawn from a farm income plan may apply to participate again but if his application is accepted by the minister the applicant will be subject to the withdrawal penalties set out in the guidelines.

(6) Where the minister and the agent are satisfied that a farmer has submitted information respecting a farm income plan that is not true and accurate in every respect to the best of the farmer's knowledge the minister may, by written notice served on the farmer, terminate the farmer's participation in the plan, and on the notice being served on the farmer he shall cease to be a participant, and the minister may thereafter refuse to accept the farmer as a participant in the plan.

Collection of contributions

8. (1) [illegible] designate the federation, a farmers' association, a [illegible] commodity from a farmer, a person selling a commodity [illegible] of a farmer or a marketing board as the government's [illegible] collection of farmers' contributions and surcharges, [illegible] shall pay contributions and surcharges [illegible] Minister of Finance.

(2) The [illegible] shall deposit
(a) [illegible] under subsection (1) in the income fund, and
(b) [illegible] under subsection (1) in the [illegible].

(3) [illegible] recover improper claims paid.

Calculation

9. (1) [illegible] rates used in determining the basic co[illegible] 1977 will be as set out in the guidelines [illegible].

(2) In [illegible] years the hired and operator labour rates will be [illegible] annually, and
(a) the hired labour rate for the current year will be the latest figure applicable to the preceding year as published in the Statistics Canada Quarterly Report on Agricultural Statistics for the hourly nonboard hired farm labour category in British Columbia, and
(b) the operator labour rate will be the rate used in the plan for the preceding year indexed by the percentage change in the hired labour rate for the same year.

Appeal board

10. (1) The minister shall appoint an appeal board consisting of
(a) an official of the British Columbia Ministry of Agriculture,
(b) an official of the British Columbia Federation of Agriculture,
(c) a chairman agreed to by the other 2 members of the tribunal,
to hear appeals of a refusal or failure to pay a benefit under a farm income plan.

. . .6

(2) To commence an appeal a farmer must
  - (a) within 30 days of receipt of notice of the ministers decision, give written notice to the minister of his intention to appeal, stating his reasons, and
  - (b) deposit $100 with the Farm Income Assurance Branch of the Ministry of Agriculture with the notice of appeal which will be refunded if the appeal is upheld and forfeited to the Minister of Finance if the appeal is lost.

(3) The date of the hearing will be set by the chairman within 30 days of being appointed.

(4) Where the appellant does not appear at the hearing, the appeal tribunal may make its finding on the basis of evidence presented at the hearing.

(5) The chairman shall report the decision of the tribunal to the Minister of Agriculture and to the appellant.

Minister of Agriculture

Presiding Member of the Executive Council

WASHINGTON BLUEBERRY COMMISSION
Serving the Blueberry Industry of Washington
1360 Bow Hill Rd.
Bow, Wa 98232

December 2, 1981 DEC 8 '81

Mr. William Stell
Subcommittee on Oversight of Government Management
Committee on Government Affairs
3306 Dirksen Senate Office Bldg.
Washington, D. C. 20510

Dear Mr. Stell;

Our office recently received a letter from Roger Roberts of the Washington State Department of Agriculture in which he said that you were working on a committee which is studying the effects of Canadian import of Blueberries and Raspberries because of the subsidies they receive from the British Columbia Government.

Iam enclosing a copy of the report that Mr Richard Drew presented at the Public Consultation on the Desirability of North American Trade Agreements on December 18, 1980. This may be of help to you in studying this matter.

Sincerely,

Dorothy J. Anderson

Dorothy J. Anderson, Sect.-Treas.
WASHINGTON BLUEBERRY COMMISSION

Enc.

WASHINGTON BLUEBERRY GROWERS ASSOCIATION, INC.

CHARTER MEMBER OF NORTH AMERICAN BLUEBERRY COUNCIL

PULIC CONSULTATION
DESIRABILITY OF NORTH AMERICAN TRADE AGREEMENTS
December 18, 1980
Presented by Richard H. Drew

As chairman of the Washington Blueberry Growers Association Import Committee, I would like to point out to you some of the effects that imported cultivated Blueberries have on United States producers, industrial users, and consumers. Although these effects are considered undesirable at the present time, with proper modification they could be changed to desirable without restricting trade.

I would like to stress that I am referring to cultivated Blueberries only. These are grown in the British Columbia Province of Canada as well as several areas in the United States. When import figures are published, cultivated Blueberries are groupedwith wild Blueberries from EasternCanada even though they are quite different fruit with entirely different markets. Our concern here is with cultivated Blueberries only (species corymbosum) grown in British Columbia.

The culitivated Blueberry industry in North America produces about 80 million pounds annually. The main producing areas consist of Michigan (35MM), New Jersey (23MM), North Carolina (8MM), Washington and Oregon (7MM), and British Columbia (up to 7.5MM). However, in the last few years the production in British Columbia has increased from only about 4 million pounds in the early 1970's to as high as 7.5 million pounds in 1979. This extra production would pose no real problem for producers, industrial users, and consumers in the United States if their berries were of consistant quality and if they were marketed in an orderly manner.

However, the British Columbia producers have been dumping their extra production on United States markets at prices below what they sell them for in other markets, below the market price in the United States, and far below their cost of production as well as our cost of production. The obvious questions are "why" and "how" is this done?

The first part of the "why" answer is quality. Many major U.S. buyers have purchased some British Columbia Blueberries sold as USDA Grade "A", only to find on arrival that some are of substandard grade. Certainly the seller is responsible for the quality, but in the meantime there are unsatisfied commodity customers and/or consumers, as well as an industry image problem of inferior berries in the market. Also, problems of reprocessing or purchasing replacement product have to be solved. For the buyer it is a loss situation even if they eventually get their purchase price refunded. Knowing these risks, most major buyers hesitate to purchase from B.C. producers. The B.C. answer has been to reduce the price until someone does buy. When this occurs, the value of all Blueberries offered for sale is lowered regardless of grade.

Next, an understanding of the "how" factor becomes essential. Normally in an open market system, growers consistantly selling below their cost of production are soon out of business. Even though the British Columbian growers have the cost advantage of a more relaxed government clearance of chemicals which can be used (they frequently use herbicides, fungicides, and insecticides such as Triforine and Kerb long before they are cleared for use on food crops in this country) they have established their cost of production with the B.C. government at 50.27¢ per pound in 1979. This is comparable to the cost of 48¢ per pound determined by a grower survey in Washington State for 1979.

That same year those same B.C. growers dumped Blueberries in the U.S. market as low as 36¢ per pound after incurring processing, marketing, freezing, and eight months storage costs. When a minimum of 15¢ per pound is added,for these extra costs, on top of the cost of production, the B.C. growers received less than 21¢ per pound for what it cost them 50.27¢ per pound to produce using their own government accepted figures.

The reason they can afford to dump in the U.S. at a loss is because the Canadian government reimburses them for 80% of the loss through a direct subsidywhich they call an insurance program. The growers also receive tax incentives to plant the Blueberries in the first place.

The fact that they are dumping in the U.S. market can also be illustrated by this year's marketing when their berries, before they were processed or frozen, which is called raw product, were sold to Canadian industrial users, processors,and repackagers for 45¢ per pound. Then they processed and froze berries for the U.S. market and sold them here for 40¢ per pound at the same time. That represented a price decline in the U.S. of 20¢ per pound which is derived as follows: To the raw product price in Canada of 45¢ add the 15¢ cost of processing, marketing, freezing, and storage for a total cost to Canadian purchasers of 60¢ per pound. From that subtract the 40¢ per pound for which they sold in the U.S. and the price reduction for the U.S. market is 20¢ per pound.

Because of their direct government subsidies, there is no incentive for the growers to improve their cultural practices for resulting better quality. Those of us who are growers in the United States have to wait each year for the subsidized Blueberries from B.C. to get off the market before we have any hope of even breaking even. In 1979 and 1980 we did not break even.

As the production goes up in British Columbia, the problem grows more critical for American producers. If this trend continues, the major producers in the Western United States will be forced out of business. We received only about 43¢ per pound for our 1979 crop and most received no more than 32¢ for their 1980 crop. As mentioned earlier, it cost 48¢ in 1979 dollars to produce a pound of Blueberries in Washington State.

Blueberries may be considered to be a small item in international trade, but the 1979 survey of growers found over 2,200 people employed in Washington Blueberry production alone during the harvest season. In addition to the economic hardship faced by U.S. Blueberry producers and their labor force if the present trend continues, the U.S. consumer will be the ultimate loser.

On the West Coast an abundant supply of superior quality product will be replaced with about half as much of an inferior quality which is grown with chemicals not cleared for use in the United States. Also the West Coast fresh market supply will dry up because it is supplied almost entirely by Washington and Oregon producers.

At this point we have no idea what you have in mind for the Trade Agreement under consideration. We assume this would take the form of totally free trade which would eliminate the unreasonable disadvantage the U.S. Blueberry grower now faces. This type of equity we would certainly support as long as it also includes upgrading the B.C. horticultural practices to the level of those in the Western United States. The net effect of this approach would be to upgrade the quality and quantity of Blueberries available to U.S. industrial users and consumers.

I realize that this is a very brief treatment of a very complex subject and our input will probably pose many questions. I hope you will contact me or Roy Thomas for any clarifications needed. Thank you for providing time for us to make our views known. Should you have any questions at this time, we will be happy to answer them.

Richard H. Drew
17440 Moon Road S.W.
Rochester, WA 98579

(206) 273-5501
(509) 962-6352

Roy Thomas
2310 West Viewmont Way West
Seattle, WA 98199

(206) 282-6915

Attachment:

1979 Cost of Production Survey, Washington State Blueberry Growers

1979 COST OF PRODUCTION SURVEY

Name: MASTER SUMMARY
Number of Pickers: 1,199
Address: WASHINGTON BLUEBERRY GROWERS
No. of non-picker employees: 105
City: State Zip
Total Pounds Harvested: 2,578,282
Number of Acres: 376; % of State Crop: 59% Processed: 1,819,986 Sold Fresh: 758,296

1/79 to 12/31/79	COST ACCOUNTS	TOTAL	PER POUND
	Wages, Picking & Hired Machine Picking	279378	.1083
	Wages, Supervise Pickers	32878	.0127
	Wages, Other Season Employees&Hired Cleaning	124194	.0482
	Wages, Fertilize, Spray & Prune	48979	.0190
	Wages, Manager	55764	.0216
	Wages, Owner & Spouse ($1,000 per acre per year; limit of $20,000)	232000	.0900
	~~Hired Machine Picking~~ #1 above	—	—
	Equipment Maintenance, Parts & Fuel	57308	.0222
	Equipment Rent	7527	.0029
	Picker Conveniences	3951	.0015
	Bee Pollination Fee	6346	.0025
	Fertilizer & Spray	74932	.0290
	Spray - combined with fertilizer	—	—
	Hardware, Supplies & Tools	29616	.0115
	Electricity	5202	.0020
	Telephone	4675	.0018
	Postage & Office Supplies	1153	.0004
	State Commission Assessment	12891	.0050
	Licenses & Permits	3112	.0012
	Insurance, Vehicles & Buildings	15851	.0061
	Insurance, State Industrial	15195	.0059
	Insurance, Health and/or Accident	8228	.0032
	Taxes, Personal Property	10564	.0041
	Taxes, Employer's Share of FICA	25307	.0098
	Taxes, Unemployment	7547	.0029
	Depreciation, Buildings - combine w/equipment	—	—
	Depreciation, Equipment & Buildings	108230	.0420
	Interest, Bldgs, Equip. & Working Capital	34808	.0135
	Accounting/Bookkeeping	5843	.0023
	Advertising for Pickers	1421	.0005
	Legal Fees	1652	.0006
	Travel for Meetings	5721	.0022
	Dues	588	.0002
	Publications	216	.0001
	Contributions/Donations	1734	.0007
	Miscellaneous	3972	.0015
	Outside Cleaning Fees	8650	.0033
	TOTALS	1235453	.4787

WASHINGTON RASPBERRY
COMMISSION

November 28, 1981

DEC 3 '81

Dear Sirs:

On November 25th, I talked to Mr. William Stell about your interest in studying the effects of foreign government subsidized imports to the United States. I think Mr. Roger Roberts from the Washington State Department of Agriculture sent you a copy of Washington Raspberry Commission's trade agreement recommendations, prepared by Mr. Melvin Moon on December 18, 1980. That is a good report, but, I have some other good material I would like for you to read and consider.

One is a market study done by Shirley Zoro of the Department of agriculture for the Raspberry Commission. And the other is a proposal narrative on a Red Raspberry Marketing Project.

All this material is true and up to date, and I would like to thank you very much for considering the raspberry industry in your study.

If you would like, you may send a copy of this report to Senator Slade Gordon, or any one else that might benefit from it.

A Tiller of the Land,

Dwight V. Chilton
Chairman of the Washington Red Raspberry Commission.

STATE OF
WASHINGTON

Dixy Lee Ray
Governor

DEPARTMENT OF AGRICULTURE
[illegible]

Date: July 16, 1980

To: Dave Kile

From: Shirley Zoro S Zoro

RE: Raspberry Market Study

Per your request, I've conducted a preliminary investigation of the price drop on red raspberries and the subsequent concern that it was due to the sale of British Columbia berries in our market.

Washington produces almost 60% of the nation's raspberry crop, with Oregon growing the other 40%.

Washington's acreage has remained fairly constant over the past ten years, at 2,900 acres, with it decreasing slightly in the last two years to an acreage of 2,600 in 1979.

The other main North American production area is British Columbia, Canada. To date, B. C. has 4,900 planted acres, and with a superior yield rate. B. C. has always been a larger producer of raspberries than the U. S. Northwest.

The United States is an important market for B. C. raspberries. In 1979, six million pounds were exported in fresh and frozen form to the U. S., mostly through Washington. This came from a total crop of 15 million pounds. Past years show an export volume of from two and a half to five million pounds.

Likewise, though to a smaller degree, Washington exports to Canada in annual figures close to 1,200,000 pounds for fresh and frozen product.

There has not been a duty for many years on fresh raspberries crossing the border during the main harvest season of July 1 to August 31. Any other time the U. S. sets a duty of 3/10 of one cent per pound for fresh and 11.6% down from 14%, on frozen berries. Canada charges a 10% duty on frozen raspberries.

Other destinations for Washington raspberries have been Japan, Australia, and Singapore, though the total of these has not exceeded an annual amount of 729,559 pounds.

The price received by Washington growers for selling processing berries has average 55¢ per pound over the last four years. The price in 1978 was 73¢ and 68¢ in 1979.

A cost analysis computed in 1979 for Pierce County (copy attached), shows the cost of production to be 65¢ a pound. This seems to allow for owners' wage, depreciation, but not land cost. Not paying himself a wage, the cost to the farmer would be 47¢ a pound, and figuring he owed nothing on equipment, buildings, etc., it would be 35¢ per pound.

Though fresh market prices seem to be holding fairly well at around $1.00 a pound (Safeway to grower), the processing price has fallen drastically.

Price quotes that I have received from processors and growers this year vary from a low of 25¢ in Oregon to a high of 30¢ in Washington, per pound. Any way you cut it, that is below the cost of production. Prices in Canada are centering around 35¢ a pound.

The main question becomes, "Why is this happening?". Here the rumors and varying philosophies are numerous.

1. The Canadians are dumping and conducting unfair market practices.
2. We've overproduced with thousands of new acres going in every year.
3. The growers killed the market by overpricing the last two years.
4. The lack of a viable marketing and promotional campaign has failed to produce new markets for the product.

All of these have some element of truth in them, but none are probably the whole story. Trying to separate fact from fiction, I've gathered the following information.

1. The Canadians - As already indicated, Washington is historically a big market for B. C. raspberries. Their exporting practices have not changed, but now with the bad prices, our growers have discovered what they feel are unfair practices.

   B. C. processors are washing, sorting, and packaging raspberries in barrels and drums to be trucked into the United States to be frozen and sold. They are being treated by customs as fresh berries, which pay no duty. Washington growers feel they should be treated as frozen berries, and pay the 11.6% duty. Canadian growers, of course, disagree.

   Growers have met with Senator Magnuson's and Congressman Swift's staffs to ask for a new interpretation of the term. This is about the only thing that could be done for a short-term solution.

   To deal with the problem over the long-term, a duty would have to be charged and that entails a procedure taking from 180 days to a year. They would first file a complaint with the U. S. Department of Commerce and then the International Trade Commission.

   Another allegation has been that because of B. C.'s Farm Income

Insurance Program, they can dump in the U. S., and still make money.

The Insurance Program is an elective subsidy program for B. C. raspberry growers which pays the difference between the price from the processors and cost of production in bad years. To receive this benefit, one must first register and pay the premium. The government then matches the money two to one so that it pays 2/3 of the expenses. Since prices had been so good the last two years, many growers had let their membership lapse. The last time any benefits were paid was for the 1976 crop.

Though there conceivably are ways to use this system to undercut U. S. prices, it is certainly not to B. C. growers' benefit to cause the kind of fall in prices we have witnessed this year. Their price has fallen from nearly 90¢ Canadian last year to 35¢ this year.

The main problem seems to lie with one particular processor, Sabolay Processing, Ltd., of Abbotsford, B. C. He has offered one million pounds of berries for sale in Washington for 38¢ per pound. I do not know if anyone has purchased from the company. It does have a bad reputation in both Canada and Washington as a company that doesn't meet its commitments, sells an inferior product, and in many ways disrupts the normal settling of the market. Whether this price is below the price of production or whether it is selling cheaper in the United States than in Canada remains to be proven. As Canadian growers prices are generally very close to ours, and the cost of processing is estimated at a minimum of 15¢ per pound, it is unlikely that the company is making any money on these sales, and it would seem then that one reason for the sale could be to break the market price. In fact, the rumor has come from more than one source that the owner has said he is trying to "buy the market".

2. Overproduction - Although new acreage has gone in, the overall result is a reduction in Washington's raspberry acreage as already reported. There will perhaps be some growth shown in the 1980 statistics. In addition to that, production has been low for two years due to winter kill and wet, cold, summer weather. If there is thought to be too many raspberries this year, look for a good production year.

Oregon seems to be in a similar situation.

British Columbia, on the other hand, will have doubled its producing acreage between 1978 and the 1981 harvest season. In 1978, B. C. had 2,300 producing acres, with a new planting of 600 acres. In 1979, 1,200 new acres went in, followed by 1,000 thus far in 1980. In all, an estimated 200 acres have been taken out of production, leaving a total of 4,900 acres.

Production in B. C. averages above that of the U. S. at 3½ to 4 tons per acre, which at a minimum will be putting an annual

9,100 more tons of raspberries on the market by 1982.

3. Overpricing - Prices have been extremely high the last two years. The general feeling with the growers was that they could never supply all the berries processors wanted, even at those high prices, so very few looked forward to this break in the price.

   As the situation stands, there are and always have been, very few markets for processed berries, and the addition of the yogurt industry in 1976 made a hugh impact.

   Last year there was a large carryover, and the yogurt manufacturers waited to buy this hold-over at low, 45-50¢/lb., prices in April and May of this year, as processors tried to empty storage for the coming crop. These were berries the processors had paid 68¢/lb. for in 1979. They will probably wait to do the same thing next year.

   Other large buyers in the past were jam and jelly manufacturers. They too have fallen on hard times as the price of sugar has gone up and the per capita consumption of their products has gone down. They are not buying as much this year and they will not pay high prices.

   This basically leaves the retail frozen pack as a market for the new crop and as the entire nation consumes under 25 million pounds of raspberries (or 1/10 of a pound per individual) each year, this does not create a large demand.

4. No Market Development or Promotion - Washington has a State Raspberry Association and a Commodity Commission which together spend no more than $30,000 a year on promotion and product development.

   Oregon has no state raspberry organizations, and puts no money into promotion.

   It's quite obvious that $30,000 doesn't go too far in a marketing campaign, nor does it pay for much research into new products or uses.

   British Columbia has a raspberry association which has promoted, through subsidy, exports to countries other than the U. S. and the creation of a new product, raspberry juice. This new product is beginning to take hold, and with the lower prices for raspberries, (I've been told they are paying 45¢/lb.) should begin to make a profit. As the manager of the association is on a two-week vacation, I can not get the actual dollar amount spent. It should be mentioned, however, that 2/3 of the money comes from the government.

   Here I would like to take an opportunity to express my opinion, for what it's worth.

This year's situation is not going to get better next year, and if there is any increased production, will probably get worse.

One solution to the problem is to put a duty on imports, but that doesn't do anything to create new markets for the native product.

Since practically all the raspberries in the North American continent are grown in the Pacific Northwest, it seems to make sense that the three areas could work together, not to cut each other's markets, but to build new ones for the mutual good.

One situation that would make it difficult for Washington to develop its own program is the size of many of the growers.

Though not a majority, there are many small and even hobby growers who would not find it economical to put out the long-term effort and funds to build a market for a part-time business.

This was proven out this year when the commodity commission voted down a referendum to increase their assessment to allow for more money for promotion.

Perhaps after this year, Washington and Oregon growers will have increased interest in market development.

In any event, a joint effort involving all three areas would pull enough large, or at least full-time, growers together that sufficient funds could be generated to support a viable program. I believe that there is a strong possibility given promotion and a reasonable competitive price, that the Pacific Northwest could become a force in the international market, or at the very least, increase consumption on the continent.

Contacts:

Corny Penner, British Columbia Raspberry Growers Association
Nolan Servoss, Washington Red Raspberry Growers Association
Jim Alcock and Bill Peters, B. C. Ministry of Agriculture
Art McCaffry, National Fruit
Mike Trap, Jacqueline Farms, Inc.
Bill Scheer, Craig Fenske, and Tyler Clark, County Extension Agents
Sheldon Pratt, Oregon Department of Agriculture
Canadian Customs, Blaine
U. S. Customs, Blaine
Tim Reagan, U. S. Department of Commerce
Lyle Raider, Grower
Ivan Matlock, Grower
Dan Hardin, Pierce County Planning Department

PROPOSAL NARRATIVE

WASHINGTON STATE DEPARTMENT OF AGRICULTURE
RED RASPBERRY MARKETING PROJECT

Washington State is the major United States producer of red raspberries. Growing approximately 60% of the nation's raspberries, Washington joins with Oregon and the Canadian Province of British Columbia to form the only commercial red raspberry production area in North America.

Although this would seem to be a marketing advantage, in actuality, the market situation and the resulting prices to both grower and initial processor have been erratic. Between 1970 and 1980, the price to farmers for processing berries commonly varied as much as 13 cents per pound from year to year. This culminated in a 49-cent per pound drop from 1979-1980. During this same ten-year period, the production of raspberries in Washington dropped by two million pounds.

Growers sell raspberries in two basic markets--fresh and initial processing. Although the fresh market price has maintained a much stabler character, the extreme perishability of the berry, coupled with the high and escalating costs of air freight, limit its potential for sale through distant fresh market systems. In addition, a severe shortage of labor, essential for hand-picking of fresh market berries, casts doubt on the ability of that market to handle the quantity of berries needed to maintain the industry at its present level.

The main method presently used to preserve raspberries, either for retail sale or subsequent commercial use, is freezing in sugar. The berries are packaged either in one of three bulk sizes or in a 10-ounce consumer-sized package. A small quantity is also individually quick frozen (IQF) and packaged primarily for retail sale.

The lack of a varied market for the bulk wholesale pack is an important factor impacting the price to both grower and initial processor. Presently, the only major purchases are for jams and jellies, yogurt, syrups, bakery goods, and wine. Even with the large increase in consumption of raspberry yogurt, the annual per capita consumption of raspberries in the U. S. has dropped from 1/5 to 1/10 of a pound during the last ten years.

One possible reason for this drop is the lack of publicity and promotion given to raspberries and raspberry products. To date, there has not been an aggressive industry-wide campaign to inform consumers of, or encourage the domestic or international sale of, raspberries or raspberry products. Neither has any research been sponsored to develop new products using processed raspberries.

This is, at least in part, due to the few number of growers and the smallness of the individual grower's production. Of the 245 members that comprise the Washington Raspberry Commission, 75% raise seven acres of berries or less. In addition, there is no national organization, as is common with many commodities, with which the Commission could coordinate its efforts.

The Commission has just passed a referendum to assess members 1/2 cent per pound of berries sold. With present production, this assessment will generate approximately $50,000. This money is to fund research and promotion. Even though this is a 100% increase over the past assessment of 1/4 cent per pound, the amount is obviously not enough to fund much in either category.

The United States has historically been a market for berries trucked down from British Columbia to be frozen, stored, and sold. The 1979 U. S. imports of British Columbia raspberries were six million pounds or over 1/3 of the total British Columbia harvest. This, to some degree, has compounded the problems.

Acreage in B. C. has grown radically in the past three years, going from 2,300 to 4,900 acres. This compares to 2,600 acres in Washington. The anticipation of a huge increase in imports, which, due to weather conditions, did not materialize in 1980, but definitely could in this and years to come, had some impact on the large price drop to growers.

Although B. C. growers have also experienced market fluctuations, the hardship has been partially offset by a government program--the Farm Income Insurance Program.

This is an elective subsidy program which, in brief, has guaranteed members at least 75% of the short-fall between the sales price and the cost of production. U. S. growers in 1980 received from 12 to 30 cents below the cost of production.

The Canadian government is also funding programs to develop new products and expand the market for the B. C. raspberry industry. This has included grants through the Agriculture and Rural Development Subsidiary Agreement to build a processing plant that will produce raspberry juice and another that will produce concentrate. This has an additional impact on Washington industry, as, to date, the concentrate used by the B. C. juice manufacturer has been produced in a Washington facility. These businesses can also receive government funds for each new job they create.

The Canadian government is also actively aiding the industry's marketing program, which includes sales to foreign buyers.

In effect, United States raspberry farmers must compete with farmers from British Columbia who are receiving substantial government assistance on a continuing basis.

However, the problem is perceived more as one of under-consumption and ineffective marketing on the part of the Washington industry.

With the assistance this proposal requests, it is believed that the Washington industry could initiate a marketing program that could overcome many of the before-listed problems.

The only other alternative to saving the industry would be to enact stiff import tariffs and duties to help control the competition from British Columbia.

STEEVES & STEINHACKER ASSOCIATES
X-RAY DIAGNOSIS AND THERAPY — NUCLEAR MEDICINE

JOHN H. STEEVES, M.D.
ROBERT STEINHACKER, M.D.
JEFFREY R. POOLE, M.D.

R.F.D. #3, BOX 314A
SKOWHEGAN, MAINE 04976
TEL. 474-5068

November 19, 1981

Senator William Cohen
Room 1251
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Cohen:

I have been following the progress of your hearings in Washington in regard to the Canadian imports of Maple Syrup, potatoes, and fish. Some of these hearings have been rebroadcasted on the farm news programs, so-called, "Angi Answers".

Maple Syrup has been of interest to me since, I guess, that our farm is the largest producer of Maple Syrup in the State of Maine. It has grown considerably in the last 5 years and has attained the size of the larger farms in Vermont and Quebec. It grew out of the demand for the product, both in this area and in different parts of the country and consists of approximately 8-9,000 taps at this time.

I am a member of the Maine Maple Producers Association and also I am a member of the International Maple Syrup Association, which combines both membership from the United States and Canada.

The subsidies which have been furnished in the Providence of Quebec has increased production in that area considerably. This has apparently consisted of both installation of tubing systems; new equipment, such as evaporators and the financing of the buildings themselves. I have talked directly to producers in that Providence. This amounts to approximately $1.00 a tap subsidy.

This situation has angered producers in other Providences of Canada, which apparently do not receive this subsidy. It has created unfair competition for producers in New England. This factor coupled with the exchange rate of somewhere between 15 & 21 cents on the dollar also leads to a dumping of syrup on the market.

I have been marketing our syrup in the past as fair west as Billings, Montana and shipping parceled syrup into California. I recently visited areas of California including SanDiego and Los Angeles as well as the Denver area; exploring the possibility of additional martketing centers. I came away from the areas with the distinct feeling that I was in a highly competitive market. This was due to the fact of syrup from Quebec entering these areas. The competition was not from the rest of this country or the rest of the providences of Canada.

STEEVES & STEINHACKER ASSOCIATES
X-RAY DIAGNOSIS AND THERAPY — NUCLEAR MEDICINE

JOHN H. STEEVES, M.D.
ROBERT STEINHACKER, M.D.
JEFFREY R. POOLE, M.D.

R.F.D. #3, BOX 314A
SKOWHEGAN, MAINE 04976
TEL. 474-3068

Our farm has gone through the entire cycle of initiating production of Maple products starting with a small operation and expanding it to the present size. I feel well versed in the economics of this aspect of farming, having attended numerous meetings in this state as well as Vermont and New York. I have talked with producers all over this country as well as parts of Canada, namely Ontario; Quebec; and New Brunswick. To establish this Maple production farm now is fiscally an expensive undertaking and is out of the economic realm of most young men interested in such an undertaking.

Any time that money is plugged into an operation; agency, or whatever, the price of the product goes up. This has been evident in the last several years probably even more than can be accounted for by inflation. This, of course, makes it even more difficult for consumers to purchase the finished product; which again in turn depressed the marketability of the product. I might say that I am personally not in favor of any type of government assistance in the Maple Industry. I certainly do feel that we are at a disadvantage from the producers in Quebec, who are provincially subsidized by their government and are also taking advantage of the differential between the Canadian dollar and the American dollar.

I would be happy to discuss this in more detail if you so desire.

Sincerely,

Jack

John H. Steeves, M.D.

JHS:sl

STR EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE SPECIAL TRADE REPRESENTATIVE
WASHINGTON, D.C. 20506

FRUITS AND VEGETABLES IN THE MTN

U.S. BENEFITS

Substantial increases in Japanese citrus quotas, reductions in citrus duties by a number of countries, and additional duty reductions for a variety of fruits, nuts and vegetables will play a major role in expanding U.S. exports of specialty products. The total value of concessions in the fruit and vegetable sector cover $420 million in 1976 trade and should bring an estimated $63 million in increased U.S. exports.

Citrus

Several countries granted concessions on citrus and citrus products, among them are major concessions from Japan as follows:

-- For fresh oranges, it is estimated the additional increase in exports over 1976 levels will be approximately 67,000 metric tons (MT) by 1983. The value of this trade is estimated at $26 million. Further expansion of Japanese orange imports is anticipated after 1983.

-- Japan's quotas for concentrated orange juice will be raised to 6,500 MT and the grapefruit juice quota will be increased to 6,000 MT. The value of these concessions is estimated to be $6.3 million for orange juice and $8.2 million for grapefruit juice over 1978 levels.

-- The duty for fresh grapefruit will be reduced from 40 percent to 25 percent, December-May, and from 20 percent to 12 percent, June-November. These duty reductions are expected to yield an increase in exports of approximately $3.8 million by the end of the transition period.

-- The Japanese duty on fresh lemons will be cut from 10 percent to 5 percent ad valorem. The value of this concession is estimated to be approximately $2.6 million. The duty on lemon juice will be reduced from 20 percent to 10 percent ad valorem.

-- Japan will also bind the duties on a number of citrus products at present rates, which insures against duty increases beyond those levels. This is significant for the long term because Japan is expected to reduce or eliminate a number of quotas in the future.

A number of other countries have also agreed to small reductions in their citrus duties. For example, Canada made a modest but important reduction in the duty on concentrated orange juice, from 5 percent to 3 percent. This is expected to yield an estimated increase of $1.8 million in sales to Canada.

Other Fruits and Vegetables

Tariff and non-tariff measure concessions from various countries should improve access for U.S. exports in a broad range of other fruit and vegetable products including grapes, almonds, raisins, dried prunes, walnuts, canned peaches and fruit cocktail, apples, pears, cherries, avocadoes, cranberries, mangoes, macadamia nuts, sweet corn, lettuce, olives, and tomato and vegetable juice. Among them:

-- The reduction of the Japanese canned peach duty from 25 percent to 15 percent is expected to increase trade by about $300,000.

-- The reduction of the European Community (EC) duty on prunes from 16 percent to 12 percent is expected to increase trade by about $400,000.

-- The increase in the New Zealand quota for apples and pears of three thousand tons is expected to yield increased trade of $800,000.

-- The reduction by Japan in the duty on fresh grapes from 20 percent to 13 percent seasonally is expected to increase U.S. exports by about $950,000.

-- The substantial reduction in papaya duties in Japan from 20 percent to 4 percent is expected to have a major impact on exports to that country, with an estimated increase in exports of about $1.2 million.

-- A reduction in the almond duty in Japan from 9 percent to 4 percent is expected to yield an additional $2 million worth of exports.

-- An important concession received in almonds is the removal of a non-tariff barrier (NTB) by India. This action is expected to increase India's almond imports by about $2 million, doubling current U.S. exports to that country.

-- Japanese duty reductions on wine and the conversion from a specific to an ad valorem rate of duty should improve the competitive position for U.S. wine exports to that market.

- In addition, the U.S. and Canada reached a separate agreement under Article XXVIII of GATT whereby the size of proposed Canadian duty increases of $115 million in U.S. horticultural exports was minimized and offset by duty reductions on $108 million in Canadian fruit and vegetable imports from the U.S. The net result is an estimated reduction in Canadian duty collections by over $3 million on U.S. exports.

U.S. CONCESSIONS

Few significant duty reductions have been made on fruit and vegetable products imported by the United States. However, negotiations still underway with a number of developing countries, including Mexico, could lead to agreements involving additional U.S. concessions in the fruit and vegetable sector.

- The gradual elimination of quotas on fresh potatoes will result in harmonization of border trade with Canada. The modest reduction in duties is expected to increase Canada's potato exports by about $300,000.

- A reduction was made from 0.75 cents per pound to 0.25 cents per pound on the duty for canned pineapple. This is expected to increase trade by about $2.1 million.

- The duty on cut flowers was reduced from 10 percent to 8 percent ad valorem. This duty reduction may further enhance the U.S. market for Colombia's cut flowers, with trade value anticipated at about $2 million.

A-5 June 1979

October 14, 1981

Beniah C. Harding
17 Gleason St.
Thomaston, Maine 04861

Honorable William S. Cohen
United States Senate
1251 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Senator:

I am impressed with the contents of your Congressional Record Report, Vol. 127, #128 regarding the influence of the economic policies of Canada and its provinces as they threaten U.S. interests, especially in Maine and other border states. You appropriately expressed concern for the potatoes, maple syrup, carrot, cabbage, onion, blueberry, raspberry, herring, and wood products industries in Maine and several border states, but, you omitted CEMENT!!!

This major industry in Maine is close to me, my friends and their families, and local communities. This unique industry located in Thomaston should be of concern to you, for it is New England's own and only.

This plant's cement is also influenced by the 20% monetary differential, "inequities in energy cost, transportation subsidies, and restrictions on U.S." cement "entering Canada."

Most outstanding to one involved in the sale of cement is the impact one realizes when one learns that Canadian cements can be used at U.S. Military & Naval installations without hesitation, including those bases that come under the NATO "umbrella!" In reverse, however, American made cement is not acceptable for use in construction at Canadian Military or Naval Bases, I am told! The same contradictory play is seen with respect to U.S. - state bridges vs. the Canadian-provincial bridge construction! This is another of the "poison pinpricks" that should be resolved especially when this plant alone contributed (a) an annual payroll to some of your constituents of about 3½ million dollars, (b) between $600,000 and $800,000 to state and local governments in the form of taxes, (c) an indeterminable amount as taxes to our Federal Government, and (d) nearly a million dollars paid for purchases within The State of Maine.

Is this fair? This is something worth thinking about.

Respectfully yours,

Ben. C. Harding

H. K. Webster Company, Inc.
P. O. Box 8 • Lawrence, Massachusetts 01842
Telephone: (617) 686-4131

BLUE SEAL
FEEDS

October 23, 1981

Mr. William Stelle
Sub-Committee on Oversight of
Government Management
c/o Committee on Government Affairs
3306 Dirksen Office Building
Washington DC 20510

Dear Mr. Stelle,

Thank you for your phone call earlier this week. We appreciate your interest in the problems which our industry is encountering in competing with Canadian feed products. As I indicated to you, we don't object to competition, which is healthy, but we do feel that everyone ought to play by the same rules. Unfortunately, the cards seem to be stacked against us. It is bad enough that the Canadian companies have the advantage of the favorable money exchange rate, but in addition to that, they have two other factors going for them, which really damage our chances of competing effectively.

The first is our own United States tariff on many feed ingredients which we use. Following is a list of ingredients on which there is a duty. I have listed the duty and then converted it into our current cost in dollars per ton, which is our industry's common measure:

Ingredient	Duty	Current Cost/$/ton
Alfalfa Pellets	3% of value	$ 4.80
Barley	15c per 100 lbs.	3.00
Corn	25c per bushel	9.00
Dicalcium Phosphate	3.8% of value	10.45
Linseed Meal	.0012c per lb.	2.40
Oat Groats	12-1/2c per 100 lbs.	2.50
Oats	3c per bushel	1.80
Rapeseed Meal	.0025c per lb.	5.00
Salt	2.3% of value	.92
Soybean Meal	.003c per lb.	6.00

It might be helpful to give you a sense of the impact upon us on our ACTUAL imported tonnage of some of these items. Our annual volume for rapeseed meal is approximately 15,000 tons, which would place our duty expense at $75,000. On oats, it is 13,000 tons - a cost of $23,400; dicalcium phosphate, 600 tons - $6,270. Imported tonnage figures are only a part of the picture, however. Obviously, if the duties were not present, our usage of Canadian feed ingredients might be substantially higher. Our actual usage of corn, for instance, is 1,600 tons per week, or 83,200 tons annually. If only 10% of this quantity were Canadian corn, we would be paying $74,880 in duties. Elimination of these duties could be a very positive step which the United States government could take which would help to restore competitive equity.

Because we realize there may be an issue on the other side of the coin, duties on American ingredients shipped into Canada, include the following: a 5% duty on bran, middlings, beet pulp, brewers grains, distillers, malt, oatmill feed and soybean meal, a 20% duty on alfalfa meal and a 7.3c/bu. duty on corn. Our understanding, however, is that bran, midds, beet pulp, distillers, malt and oatmill feed are usually in surplus supply in Canada and therefore almost never imported.

There is another problem which would probably be difficult for the United States to attack, except as part of negotiations with the Canadian government. That is the transportation subsidy which benefits the Canadian feed manufacturers located in eastern Canada. It appears that the feed manufacturers located south and east of Montreal have the benefit of the Montreal freight rate for shipments from the west. We, on the other hand, get no such benefit. For example, the rate on rapeseed meal from Altona via Thunder Bay to Montreal is $1.17-1/2 per cwt. Our Canadian feed competitors, regardless of distance from Montreal, get this rate. We, however, have to pay the additional rate from Montreal to Richford of 79c per cwt., nearly $16/ton higher.

Finally, we should at least mention the duties on the end product: manufactured feeds. The United States imposes NO duties on Canadian feeds coming into the United States, but Canada has duties on our feeds going into Canada. It is my understanding that as a result of the last round of negotiations, Canadian duties are supposed to be phased out over the next six or seven years. In terms of our ability to compete today - in view of the money exchange rate, it's probably not a big issue, but it still does not seem fair to us that we should be faced with a one-way street.

I hope this information is helpful. If you should have any questions, please let me know, and we will attempt to answer them.

Thank you again for your interest in our problem. We earnestly hope that the Sub-Committee hearing and study will lead to some action which will help restore some equity to the present competitive situation for American companies located in states along the Canadian border.

Sincerely,

Dean K. Webster

Dean K. Webster
President

DKW/ev

WVII TELEVISION
41 Farm Rd. Bangor ME. 04401 Tel. 207 945-6457 TWX 710 222-7348

DEC [illegible] '81

December 7, 1981

The Honorable William Cohen
1251 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Bill:

Thank you for the opportunity to submit this letter about an important border industry severely injured by an unreasonable Canadian trade policy. I refer to the television and radio industry.

Since 1976 U.S. stations have lost annually about $20 million in revenues as the result of a Canadian tax law which denies a business expense deduction to Canadian businesses for the cost of advertising placed on U.S. border broadcast stations. More than three years ago WVII in Bangor and 14 other border television stations sought relief from the Canadian practice by filing a complaint before the United States Trade Representative under Section 301 of the Trade Act of 1974. Although the border broadcasters won their case more than a year ago--the prior Administration found the Canadian law to be unfair and to burden and restrain U.S. trade--the broadcasters have been frustrated by the Canadian's continued intransigence on this issue.

Last July six of your distinguished colleagues on the Senate Finance Committee, including Chairman Dole, urged the President to proceed forthwith on this matter. I would like to submit for the record a copy of their letter to President Reagan. I urge you to join with them in viewing the border broadcast case as a bellwether for the United States maintaining a strong but open negotiating position on other trade issues between the United States and Canada. As the Senators stated, this case presents an opportunity for our government to send a clear signal that Section 301 cases aimed at eliminating unfair foreign trade restrictions on U.S. exports will be vigorously prosecuted.

abc

Some of the problems of the other border industries your committee is examining illustrate how the broadcasters 301 case is a bellwether. The broadcasters patiently relied on a process made available by the Congress through the 1974 Trade Act, prevailed on the merits, and then in frustration watched as the present Administration was unable to recommend an appropriate legislative remedy until November 17 when President Reagan issued a message to Congress on this issue.

Now that President Reagan has reaffirmed President Carter's finding in our 301 case and has urged Congress to respond by enacting legislation which would mirror the Canadian law, I am hopeful that Congress will support the President and help resolve this unfortunate dispute. The Maine broadcasters look forward to working with you as Congress responds to the President's recommendation.

Sincerely yours,

John J. Pineau
President

:jlc

xc: Eugene F. Mullin
Norman Minsky
Robert Ruxin